MONTANA LEGISLATIVE HISTORY

Chapter 544 LAWS 2003

Bill H _____ S 407 Original bill & history ✓ C

S Committee on Taxation

Hearing Date(s)		C
Sub committee	2/18	✓ C
3-10; 3-12	3/17	✓ C
3/27	3/28	✓ C
Date Out	3/28	✓ C

H Committee on Taxation

Hearing Date(s)		C
	4/08	✓ C
	4/10	✓ C
		✓ C
	4/10	

Did this bill originate in an interim committee? ____Yes ____No

Committee _____ Report _____

conf. com. 4/22/03 ✓
23/03

LEGISLATIVE HISTORIES SINCE 1997

The scope and depth of legislative committee minutes varies by year and by committee. If you would like additional information about a hearing, you may want to determine whether the hearing was recorded. In addition, some recent floor debates were also recorded. For information on accessing or purchasing these recordings, contact the Historical Society Archives at 406-444-4774.

If you have concerns regarding the format of the enclosed committee minutes or the recordings of the hearings, it is suggested that you contact your state legislators.

SB 406 INTRODUCED BY MCGEE *LC1682 DRAFTER: LEE EVANS*

ALLOW CORNER RECORD TO BE FILED IN LIEU OF CERTIFICATE OF SURVEY

2/14	INTRODUCED		
2/14	REFERRED TO LOCAL GOVERNMENT		
2/20	HEARING		
2/21	COMMITTEE EXECUTIVE ACTION—BILL PASSED AS AMENDED	9	0
2/21	COMMITTEE REPORT—BILL PASSED AS AMENDED		
2/24	2ND READING PASSED ON VOICE VOTE	50	0
2/25	3RD READING PASSED	49	0
	TRANSMITTED TO HOUSE		
3/07	REFERRED TO NATURAL RESOURCES		
3/17	HEARING		
3/28	COMMITTEE EXECUTIVE ACTION—BILL CONCURRED AS AMENDED	16	1
3/28	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
4/03	2ND READING CONCURRED AS AMENDED	98	1
4/05	3RD READING CONCURRED	93	5
	RETURNED TO SENATE WITH AMENDMENTS		
4/11	2ND READING HOUSE AMENDMENTS CONCURRED ON VOICE VOTE	48	0
4/12	3RD READING PASSED AS AMENDED BY HOUSE	49	0
4/12	SENT TO ENROLLING		
4/15	RETURNED FROM ENROLLING		
4/15	SIGNED BY PRESIDENT		
4/15	SIGNED BY SPEAKER		
4/16	TRANSMITTED TO GOVERNOR		
4/23	RETURNED WITH GOVERNOR'S PROPOSED AMENDMENTS		
4/24	2ND READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED ON VOICE VOTE	50	0
4/25	3RD READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	49	0
4/25	TRANSMITTED TO HOUSE FOR CONSIDERATION OF GOVERNOR'S PROPOSED AMENDMENTS		
4/25	2ND READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	96	4
4/26	3RD READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	86	14
4/26	RETURNED TO SENATE CONCURRED IN GOVERNOR'S PROPOSED AMENDMENTS		
4/26	SENT TO ENROLLING		
4/29	RETURNED FROM ENROLLING		
4/29	SIGNED BY PRESIDENT		
4/29	SIGNED BY SPEAKER		
4/30	TRANSMITTED TO GOVERNOR		
5/01	SIGNED BY GOVERNOR		
5/01	CHAPTER NUMBER ASSIGNED		
	CHAPTER NUMBER 549		
	EFFECTIVE DATE: 10/01/2003 - ALL SECTIONS		

SB 407 INTRODUCED BY DEPRATU *LC0810 DRAFTER: HEIMAN*

INCOME TAX REDUCTION WITH REVENUE FROM LIMITED SALES TAX

2/14	INTRODUCED		
2/14	REFERRED TO TAXATION		
2/14	FISCAL NOTE REQUESTED		
2/18	HEARING		
2/19	FISCAL NOTE RECEIVED		
2/19	FISCAL NOTE SIGNED		
2/20	FISCAL NOTE PRINTED		
3/17	REVISED FISCAL NOTE REQUESTED		
3/18	COMMITTEE EXECUTIVE ACTION—BILL PASSED AS AMENDED	7	4
3/18	COMMITTEE REPORT—BILL PASSED AS AMENDED		
3/20	2ND READING PASSED AS AMENDED	25	24
3/20	TAKEN FROM 2ND READING; REREFERRED TO TAXATION	32	17
3/28	COMMITTEE EXECUTIVE ACTION—BILL PASSED AS AMENDED	7	4
3/29	COMMITTEE REPORT—BILL PASSED AS AMENDED		
4/01	REVISED FISCAL NOTE RECEIVED		
4/01	REVISED FISCAL NOTE SIGNED		
4/01	REVISED FISCAL NOTE PRINTED		
4/01	2ND READING PASS MOTION FAILED	25	25
4/02	2ND READING PASSED AS AMENDED	35	15
4/03	3RD READING PASSED	31	18
	TRANSMITTED TO HOUSE		
4/04	REFERRED TO TAXATION		
4/07	REVISED FISCAL NOTE REQUESTED		
4/07	REVISED FISCAL NOTE RECEIVED		
4/08	HEARING		

4/09	REVISED FISCAL NOTE PRINTED		
4/10	COMMITTEE EXECUTIVE ACTION—BILL CONCURRED AS AMENDED	10	8
4/10	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
4/10	REVISED FISCAL NOTE REQUESTED		
4/11	REVISED FISCAL NOTE RECEIVED		
4/11	REVISED FISCAL NOTE PRINTED		
4/11	2ND READING NOT CONCURRED AS AMENDED	49	51
4/11	SEGREGATED FROM COMMITTEE OF THE WHOLE REPORT	59	36
4/14	2ND READING CONCUR AS AMENDED MOTION FAILED	46	54
4/14	2ND READING CONCUR AS AMENDED MOTION FAILED	50	50
4/14	2ND READING CONCURRED AS AMENDED	51	49
4/15	3RD READING CONCURRED	51	49
	RETURNED TO SENATE WITH AMENDMENTS		
4/16	2ND READING HOUSE AMENDMENTS NOT CONCURRED ON VOICE VOTE	50	0
4/16	CONFERENCE COMMITTEE APPOINTED		
4/22	CONFERENCE COMMITTEE APPOINTED		
4/22	HEARING		
4/23	HEARING		
4/23	CONFERENCE COMMITTEE DISSOLVED		
4/24	REVISED FISCAL NOTE REQUESTED		
4/24	REVISED FISCAL NOTE SIGNED		
4/24	REVISED FISCAL NOTE PRINTED		
4/24	2ND READING HOUSE AMENDMENTS CONCURRED	26	23
4/25	3RD READING PASSED AS AMENDED BY HOUSE	26	24
4/25	SENT TO ENROLLING		
4/29	RETURNED FROM ENROLLING		
4/29	SIGNED BY PRESIDENT		
4/29	SIGNED BY SPEAKER		
4/30	TRANSMITTED TO GOVERNOR		
4/30	SIGNED BY GOVERNOR		
4/30	CHAPTER NUMBER ASSIGNED		
	CHAPTER NUMBER 544		
	EFFECTIVE DATE: 4/30/2003 - SECTIONS 1-39, 47, AND 49-62		
	EFFECTIVE DATE: 1/01/2005 - SECTIONS 40-46 AND 48		

SB 408 INTRODUCED BY NELSON *LC0962 DRAFTER: FOX*

ADJUSTMENT TO STATE INCOME TAX FOR CERTAIN HEALTH CARE PROFESSIONALS

11/25	FISCAL NOTE NEEDED		
2/14	INTRODUCED		
2/14	FISCAL NOTE REQUESTED		
2/14	REFERRED TO TAXATION		
2/20	FISCAL NOTE RECEIVED		
2/20	FISCAL NOTE SIGNED		
2/20	HEARING		
2/20	COMMITTEE EXECUTIVE ACTION—BILL PASSED	10	1
2/20	FISCAL NOTE PRINTED		
2/20	COMMITTEE REPORT—BILL PASSED		
2/21	2ND READING PASSED ON VOICE VOTE	50	0
2/22	3RD READING PASSED	49	1
	TRANSMITTED TO HOUSE		
3/07	REFERRED TO TAXATION		
3/19	HEARING		
3/19	COMMITTEE EXECUTIVE ACTION—BILL CONCURRED	15	3
3/19	COMMITTEE REPORT—BILL CONCURRED		
4/15	2ND READING CONCURRED	94	5
4/16	3RD READING CONCURRED	95	5
	RETURNED TO SENATE		
4/17	SENT TO ENROLLING		
4/17	RETURNED FROM ENROLLING		
4/17	SIGNED BY PRESIDENT		
4/17	SIGNED BY SPEAKER		
4/17	TRANSMITTED TO GOVERNOR		
4/18	RETURNED WITH GOVERNOR'S PROPOSED AMENDMENTS		
4/22	2ND READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED ON VOICE VOTE	49	0
4/23	3RD READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	47	1
4/23	TRANSMITTED TO HOUSE FOR CONSIDERATION OF GOVERNOR'S PROPOSED AMENDMENTS		
4/23	2ND READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	95	4
4/24	3RD READING GOVERNOR'S PROPOSED AMENDMENTS CONCURRED	94	6

Senate BILL NO. 407

INTRODUCED BY _____
(Primary Sponsor)

A BILL FOR AN ACT ENTITLED: "AN ACT CREATING THE MONTANA ECONOMIC DEVELOPMENT TAX ACT; PROVIDING FOR A LIMITED 4 PERCENT SALES TAX AND USE TAX ON CERTAIN PROPERTY AND SERVICES; REDUCING INDIVIDUAL INCOME TAX RATES; ESTABLISHING A CAPITAL GAINS CREDIT; PROVIDING FOR COLLECTION OF THE LIMITED SALES TAX AND USE TAX; PROVIDING FOR DISTRIBUTION OF THE LIMITED SALES TAX AND USE TAX REVENUE; CLARIFYING THE DEFINITION OF "CONSUMER PRICE INDEX" RELATING TO INDIVIDUAL INCOME TAX PROVISIONS; AMENDING INDIVIDUAL INCOME TAX EXEMPTIONS; LIMITING THE INDIVIDUAL INCOME TAX DEDUCTION FOR FEDERAL INCOME TAX PAID; AMENDING THE INDIVIDUAL INCOME TAX STANDARD DEDUCTION; AMENDING SECTIONS 13-37-218, 15-30-101, 15-30-103, 15-30-112, 15-30-121, 15-30-122, AND 15-30-142, MCA; AND PROVIDING DELAYED EFFECTIVE DATES AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Short title.** [This act] may be cited as the "Montana Economic Development Tax Act".

NEW SECTION. **Section 2. Definitions.** For purposes of [sections 2 through 41], unless the context requires otherwise, the following definitions apply:

(1) (a) "Accommodations" means a building or structure containing individual sleeping rooms or suites that provides overnight lodging facilities for periods of less than 30 days to the general public for compensation.

(b) Accommodations includes a facility represented to the public as a hotel, motel, campground, resort, dormitory, condominium inn, dude ranch, guest ranch, hostel, public lodginghouse, or bed and breakfast facility.

(c) The term does not include a health care facility, as defined in 50-5-101, any facility owned by a corporation organized under Title 35, chapter 2 or 3, that is used primarily by persons under 18 years of age for camping purposes, any hotel, motel, hostel, public lodginghouse, or bed and breakfast facility whose average daily accommodation charge for single occupancy does not exceed 60% of the amount authorized under 2-18-501 for the actual cost of lodging for travel within the state of Montana, or any other facility that is rented

solely on a monthly basis or for a period of 30 days or more.

(2) (a) "Admission" means payment made for the privilege of being admitted to a facility, place, or event.

(b) The term does not include payment for admittance to a movie theater or to a sporting event sanctioned by a school district, college, or university.

(3) "Alcoholic beverages" means beverages that are suitable for human consumption and contain 1/2 of 1% or more of alcohol by volume.

(4) (a) "Base rental charge" means the following:

(i) charges for time of use of the rental vehicle and mileage, if applicable;

(ii) charges accepted by the renter for personal accident insurance;

(iii) charges for additional drivers or underage drivers; and

(iv) charges for child safety restraints, luggage racks, ski racks, or other accessory equipment for the rental vehicle.

(b) The term does not include:

(i) rental vehicle price discounts allowed and taken;

(ii) rental charges or other charges or fees imposed on the rental vehicle owner or operator for the privilege of operating as a concessionaire at an airport terminal building;

(iii) motor fuel;

(iv) intercity rental vehicle drop charges; or

(v) taxes imposed by the federal government or by state or local governments.

(5) "Camp" means a facility, place, or location in which persons are provided, for payment, instruction or recreation in conjunction with room and board for a limited period of time, typically measured in days or weeks.

(6) (a) "Campground" means a place used for public camping where persons may camp, secure tents, or park individual recreational vehicles for camping and sleeping purposes.

(b) The term does not include that portion of a trailer court, trailer park, or mobile home park intended for occupancy by trailers or mobile homes for resident dwelling purposes for periods of 30 consecutive days or more.

(7) "Engaging in business" means carrying on or causing to be carried on any activity with the purpose of receiving direct or indirect benefit.

(8) (a) "Food ingredients" means substances, whether in liquid, concentrated, solid, frozen, dried, or

dehydrated form, that are sold for ingestion or chewing by humans and that are consumed for their taste or nutritional value.

(b) The term does not include alcoholic beverages or tobacco.

(9) "Food sold through vending machines" means food dispensed from a machine or other mechanical device that accepts payment.

(10) "Guided recreation and sightseeing" means recreational activities or sightseeing in which a service provider, for payment, accompanies or provides direction or instruction to the purchaser.

(11) (a) "Lease", "leasing", or "rental" means any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration. A lease or rental may include future options to purchase or extend.

(b) Lease or rental includes agreements covering motor vehicles and trailers when the amount of consideration may be increased or decreased by reference to the amount realized upon sale or disposition of the property, as defined in 26 U.S.C. 7701(h)(1).

(c) The term does not include:

(i) a transfer of possession or control of property under a security agreement or deferred payment plan that requires the transfer of title upon completion of the required payments;

(ii) a transfer of possession or control of property under an agreement that requires the transfer of title upon completion of required payments and payment of an option price that does not exceed the greater of $100 or 1% of the total required payments; or

(iii) providing tangible personal property with an operator if an operator is necessary for the equipment to perform as designed and not just to maintain, inspect, or set up the tangible personal property.

(d) This definition must be used for sales tax and use tax purposes regardless of whether a transaction is characterized as a lease or rental under generally accepted accounting principles, the Internal Revenue Code, the Montana Uniform Commercial Code, or other provisions of federal, state, or local law.

(e) This definition must be applied only prospectively from the date of adoption and has no retroactive impact on existing leases or rentals.

(12) (a) "Motor vehicle" means a light vehicle as defined in 61-1-139, a motorcycle as defined in 61-1-105, a motor-driven cycle as defined in 61-1-106, a quadricycle as defined in 61-1-133, a motorboat or a sailboat as defined in 23-2-502, an off-highway vehicle as defined in 23-2-801 that:

(i) is rented for a period of not more than 30 days;

(ii) is rented without a driver, pilot, or operator; and

(iii) is designed to transport 15 or fewer passengers.

(b) Motor vehicle includes:

(i) a rental vehicle rented pursuant to a contract for insurance; and

(ii) a truck, trailer, or semitrailer that has a gross vehicle weight of less than 22,000 pounds, that is rented without a driver, and that is used in the transportation of personal property.

(c) The term does not include farm vehicles, machinery, or equipment.

(13) "Permit" or "seller's permit" means a seller's permit as described in [section 19].

(14) "Person" means an individual, estate, trust, fiduciary, corporation, partnership, limited liability company, limited liability partnership, or any other legal entity.

(15) (a) "Prepared food" means:

(i) food sold in a heated state or heated by the seller;

(ii) two or more food ingredients mixed or combined by the seller for sale as a single item; or

(iii) food sold with eating utensils provided by the seller, including plates, knives, forks, spoons, glasses, cups, napkins, or straws. A plate does not include a container or packaging used to transport the food.

(b) The term includes:

(i) soda pop, juices, coffee, tea, milk, milk shakes, and other beverages, other than alcoholic beverages, that are sold for consumption on the premises of the seller; and

(ii) bakery items, including bread, rolls, buns, biscuits, bagels, croissants, pastries, doughnuts, Danish pastry, cakes, tortes, pies, tarts, muffins, bars, or cookies, that are sold for consumption on the premises.

(c) The term does not include:

(i) food that is only cut, repackaged, or pasteurized by the seller; or

(ii) eggs, fish, meat, poultry, and foods containing these raw animal foods requiring cooking by the consumer, as recommended by the food and drug administration in chapter 3, part 401.11, of its Food Code so as to prevent food-borne illnesses.

(16) "Purchaser" means a person to whom a sale of personal property is made or to whom a service is furnished.

(17) (a) "Recreation fees" means money paid for participating in or observing sporting, athletic, sightseeing, or recreational activities.

(b) The term does not include money paid to observe a sporting event sanctioned by a school district,

college, or university.

(18) "Rental vehicle" means a motor vehicle that is used for or by a person other than the owner of the motor vehicle through an arrangement and for consideration.

(19) "Retail sale" means any sale, lease, or rental for any purpose other than for resale, sublease, or subrent.

(20) "Sale" or "selling" means the transfer of property for consideration or the performance of a service for consideration.

(21) (a) "Sales price" applies to the measure subject to sales tax and means the total amount or consideration, including cash, credit, property, and services, for which personal property or services are sold, leased, or rented or valued in money, whether received in money or otherwise, without any deduction for the following:

(i) the seller's cost of the property sold;

(ii) the cost of materials used, labor or service costs, interest, losses, all costs of transportation to the seller, all taxes imposed on the seller, and any other expense of the seller;

(iii) charges by the seller for any services necessary to complete the sale, other than delivery and installation charges;

(iv) delivery charges;

(v) installation charges;

(vi) the value of exempt personal property given to the purchaser when taxable and exempt personal property have been bundled together and sold by the seller as a single product or piece of merchandise; and

(vii) credit for any trade-in.

(b) The amount received for charges listed in subsections (21)(a)(iii) through (21)(a)(vii) are excluded from the sales price if they are separately stated on the invoice, billing, or similar document given to the purchaser.

(c) The term does not include:

(i) discounts, including cash, term, or coupons that are not reimbursed by a third party that are allowed by a seller and taken by a purchaser on a sale;

(ii) interest, financing, and carrying charges from credit extended on the sale of personal property or services if the amount is separately stated on the invoice, bill of sale, or similar document given to the purchaser; or

(iii) any taxes legally imposed directly on the consumer that are separately stated on the invoice, bill of sale, or similar document given to the purchaser.

(d) In an exchange in which the money or other consideration received does not represent the value of the property or service exchanged, sales price means the reasonable value of the property or service exchanged.

(e) When the sale of property or services is made under any type of charge or conditional or time-sales contract or the leasing of property is made under a leasing contract, the seller or lessor shall treat the sales price, excluding any type of time-price differential, under the contract as the sales price at the time of the sale.

(22) "Sales tax" and "use tax" mean the applicable tax imposed by [section 3].

(23) "Seller" means a person that makes sales, leases, or rentals of personal property or services.

(24) (a) "Service" means an activity that is engaged in for another person for consideration and that is distinguished from the sale or lease of property. Service includes activities performed by a person for its members or shareholders.

(b) In determining what a service is, the intended use, principal objective, or ultimate objective of the contracting parties is irrelevant.

(25) "Sightseeing" means engaging in a tour or trip for pleasure or culture.

(26) "Sold by the drink" means alcoholic beverages that are sold for consumption on the premises where they are purchased. The term is not limited to single servings, but includes alcoholic beverages sold by the bottle, can, pitcher, or as more than a single serving.

(27) "Sporting goods" means items designed for human use and worn or used in conjunction with sporting, athletic, or recreational activities.

(28) "Sporting, athletic, or recreational activities" are activities commonly performed for pleasure, competition, or fitness purposes. The following list is intended to be examples and not an all-inclusive list:

(a) horseback riding;

(b) climbing, trekking, and mountaineering;

(c) biking;

(d) golfing;

(e) baseball, football, hockey, volleyball, tennis, basketball, and soccer;

(f) hunting and fishing;

(g) boating, canoeing, jet skiing, rafting, kayaking, and parasailing;

(h) camping and backpacking;

(i) swimming and diving;

(j) bowling and ice skating;

(k) skiing, snowmobiling, snow boarding, and snowshoeing;

(l) hang gliding and ballooning; and

(m) motorcycling, four-wheeling, and riding all-terrain vehicles.

(29) "Tuition" means money paid for instruction, room, or board.

(30) "Use" or "using" includes use, consumption, or storage, other than storage for resale or for use solely outside this state, in the ordinary course of business.

NEW SECTION. **Section 3. Imposition and rate of sales tax and use tax -- exceptions.** (1) A sales tax of 4% is imposed on sales of the following property or services:

(a) prepared food;

(b) food sold through vending machines;

(c) alcoholic beverages sold by the drink;

(d) accommodations and campgrounds;

(e) the base rental charge for rental vehicles;

(f) rental or lease of sporting goods;

(g) guided recreation and sightseeing;

(h) admissions;

(i) camp tuition; and

(j) recreation fees.

(2) The sales tax is imposed on the purchaser and must be collected by the seller and paid to the department by the seller. The seller holds all sales taxes collected in trust for the state. The sales tax must be applied to the sales price.

(3) (a) For the privilege of using property or services within this state, there is imposed on the person using the following property or services a use tax equal to 4% of the value of the property or services:

(i) prepared food;

(ii) food sold through vending machines;

(iii) alcoholic beverages sold by the drink;

(iv) accommodations and campgrounds;

(v) the base rental charge for rental vehicles;

(vi) rental or lease of sporting goods;

(vii) guided recreation and sightseeing;

(viii) admissions;

(ix) camp tuition; and

(x) recreation fees.

(b) The use tax is imposed on property or services that were:

(i) acquired outside this state as the result of a transaction that would have been subject to the sales tax had it occurred within this state;

(ii) acquired within the exterior boundaries of an Indian reservation within this state as a result of a transaction that would have been subject to the sales tax had it occurred outside the exterior boundaries of an Indian reservation within this state;

(iii) acquired as the result of a transaction that was not initially subject to the sales tax imposed by subsection (1) or the use tax imposed by subsection (3)(a) but which transaction, because of the buyer's subsequent use of the property, is subject to the sales tax or use tax; or

(iv) rendered as the result of a transaction that was not initially subject to the sales tax or use tax but that because of the buyer's subsequent use of the services is subject to the sales tax or use tax.

(4) For purposes of this section, the value of property must be determined as of the time of acquisition, introduction into this state, or conversion to use, whichever is latest.

(5) The sale of property or services exempt or nontaxable under [sections 2 through 41] is exempt from the tax imposed in subsections (1) and (3).

NEW SECTION. **Section 4. Presumption of taxability -- value -- rules.** (1) In order to prevent evasion of the sales tax or use tax and to aid in its administration, it is presumed that:

(a) all sales by a person engaging in business are subject to the sales tax or use tax; and

(b) all property bought or sold by any person for delivery into this state is bought or sold for a taxable use within this state.

(2) In determining the amount of use tax due on the use of property or services, it is presumed, in the absence of preponderant evidence of another value, that value means the total amount of property or service

or the reasonable value of other consideration paid for the use of the property or service, exclusive of any type of time-price differential. However, in an exchange in which the amount of money paid does not represent the value of the property or service purchased, the use tax must be imposed on the reasonable value of the property or service purchased.

(3) The department shall adopt rules providing for the payment of the sales tax and use tax based on a rounding method.

NEW SECTION. **Section 5. Separate statement of tax -- no advertising to absorb or refund tax -- rules.** (1) If a person collects a tax in excess of the tax imposed by [section 3], both the tax and the excess tax must be remitted to the department.

(2) Except as provided in subsection (4), the sales tax must be stated separately for all sales, except for sales from coin-operated or currency-operated machines.

(3) A person may not advertise, hold out, or state to the public or to any customer that the tax imposed by [sections 2 through 41] will be absorbed or refunded.

(4) The department may adopt rules permitting sellers the option of stating sales tax based upon a percentage of taxable sales.

NEW SECTION. **Section 6. Liability of user for payment of use tax.** (1) A person within this state who uses property is liable to the state for payment of the use tax if the use tax is payable on the value of the property but has not been paid.

(2) The liability imposed by this section is discharged if the buyer has paid the use tax to the seller for payment to the department.

NEW SECTION. **Section 7. Collection of sales tax and use tax -- listing of business locations and agents -- severability.** (1) A person engaging in the business of selling property or services subject to taxation under [sections 2 through 41] shall collect the sales tax from the purchaser and pay the sales tax collected to the department.

(2) A person engaging in business within this state shall, before making any sales subject to [sections 2 through 41], obtain a seller's permit, as provided in [section 19], and at the time of making a sale, whether within or outside the state, collect the sales tax imposed by [section 3] from the purchaser and give to the

purchaser a receipt, in the manner and form prescribed by rule, for the sales tax paid.

(3) The department may authorize the collection of the sales tax imposed by [section 3] by any retailer who does not maintain a place of business within this state but who, to the satisfaction of the department, is in compliance with the law. When authorized, the person shall collect the use tax upon all property and services that, to the person's knowledge, are for use within this state and subject to taxation under [sections 2 through 41].

(4) All sales tax and use tax required to be collected and all sales tax and use tax collected by any person under [sections 2 through 41] constitute a debt owed to this state by the person required to collect the sales tax and use tax.

(5) A person engaging in business within this state that is subject to [sections 2 through 41] shall provide to the department:

(a) the names and addresses of all of the person's agents operating within this state; and

(b) the location of each of the person's distribution houses or offices, sales houses or offices, and other places of business within this state.

(6) If any application of this section is held invalid, the application to other situations or persons is not affected.

NEW SECTION. **Section 8. Nontaxable transaction certificate -- requirements.** (1) A nontaxable transaction certificate executed by a buyer or lessee must be in the possession of the seller or lessor at the time that a nontaxable transaction occurs.

(2) A nontaxable transaction certificate must contain the information and be in the form prescribed by the department.

(3) Only a buyer or lessee who has registered with the department and whose seller's permit is valid may execute a nontaxable transaction certificate.

(4) If the seller or lessor accepts a nontaxable transaction certificate within the required time and believes in good faith that the buyer or lessee will employ the property or service transferred in a nontaxable manner, the properly executed nontaxable transaction certificate is considered conclusive evidence that the sale is nontaxable.

NEW SECTION. **Section 9. Nontaxable transaction certificate -- form.** (1) The department shall

provide for a uniform nontaxable transaction certificate. A purchaser shall use the certificate when purchasing goods or services for resale or for other nontaxable transactions.

(2) At a minimum, the certificate must provide:

(a) the number of the seller's permit issued to the purchaser as provided in [section 19];

(b) the general character of property or service sold by the purchaser in the regular course of business;

(c) the property or service purchased for resale;

(d) the name and address of the purchaser; and

(e) a signature line for the purchaser.

(3) The department shall adopt rules to provide procedures for application for and provision of a certificate to a person engaging in business within this state prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] that has applied in a timely fashion is issued a certificate prior to [the applicability date of this section].

NEW SECTION. **Section 10. Exemption -- government agencies -- exception.** All sales by or uses by the United States or an agency or instrumentality of the United States are exempt from the sales tax and use tax.

NEW SECTION. **Section 11. Exemption -- isolated or occasional sale or lease of property.** The isolated or occasional sale or lease of property by a person that is not regularly engaged in or that does not claim to be engaged in the business of selling or leasing the same or a similar property is exempt from the sales tax and use tax.

NEW SECTION. **Section 12. Nontaxability -- food products.** (1) The sale of food or a food service offered or delivered as part of a residential living arrangement lasting more than 30 days and food consumed by a person that is party to the arrangement is exempt from the sales tax and use tax.

(2) The sale of food or a food service offered by the state or a political subdivision of the state, including school districts and postsecondary colleges and universities, is exempt from the sales tax and use tax.

NEW SECTION. **Section 13. Nontaxability -- sale of property for resale.** The sale of property is

nontaxable if:

(1) the sale is made to a buyer who delivers a nontaxable transaction certificate to the seller;

(2) the buyer resells the property either by itself or in combination with other property; and

(3) the subsequent sale is in the ordinary course of business and the property will be subject to the sales tax.

NEW SECTION. **Section 14. Nontaxability -- sale of service for resale.** The sale of a service for resale is nontaxable if:

(1) the sale is made to a person who delivers a nontaxable transaction certificate;

(2) the buyer resells the service and separately states the value of the service purchased in the charge for the service in the subsequent sale; and

(3) the subsequent sale is in the ordinary course of business and subject to the sales tax.

NEW SECTION. **Section 15. Nontaxability -- lease for subsequent lease.** The lease of property is nontaxable if:

(1) the lease is made to a lessee who delivers a nontaxable transaction certificate; and

(2) the lessee does not use the property in any manner other than for subsequent lease in the ordinary course of business.

NEW SECTION. **Section 16. Nontaxability -- use of property for leasing.** The value of leased property is not considered in computing the use tax due if the person holding the property for lease:

(1) is engaged in a business that derives a substantial portion of its receipts from leasing or selling property of the type leased;

(2) does not use the property in any manner other than holding it for lease or sale or leasing or selling it either by itself or in combination with other tangible personal property in the ordinary course of business; and

(3) does not use the property in a manner incidental to the performance of a service.

NEW SECTION. **Section 17. Nontaxability -- nonprofits.** The sale of property or of a service is nontaxable if the seller is an organization that has a tax-exempt designation under the provisions of section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. 501(c)(3), as amended.

NEW SECTION. **Section 18. Credit -- out-of-state taxes.** If a sales, use, or similar tax has been levied by another state or a political subdivision of another state on property that was leased outside this state but that will be used or consumed in this state and the tax was paid by the current user, the amount of tax paid may be credited against any use tax due this state on the same property. The credit may not exceed the sales tax or use tax due this state.

NEW SECTION. **Section 19. Seller's permit.** (1) A person that wishes to engage in business within this state that is subject to [sections 2 through 41] shall obtain a seller's permit before engaging in business within this state.

(2) Upon an applicant's compliance with [sections 2 through 41], the department shall issue to the applicant a separate, numbered seller's permit for each location in which the applicant maintains an office or other place of business within Montana. A permit is valid until revoked or suspended but is not assignable. A permit is valid only for the person in whose name it is issued and for the transaction of business at the place designated. The permit must be conspicuously displayed at all times at the place for which it is issued.

(3) The department shall adopt rules to provide procedures for application for and provision of a seller's permit to a person engaging in business within this state that is subject to [sections 2 through 41] prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] is issued a seller's permit prior to [the applicability date of this section]. The department may adopt rules providing for seasonal permits.

NEW SECTION. **Section 20. Permit application -- requirements -- place of business -- form.** (1) (a) A person that wishes to engage in the business of making retail sales or providing services in Montana that are subject to [sections 2 through 41] shall file with the department an application for a permit. If the person has more than one location in which the person maintains an office or other place of business, an application may include multiple locations.

(b) A vending machine operator who has more than one vending machine location is considered to have only one place of business for purposes of this section.

(c) An applicant who does not maintain an office or other place of business and who moves from place to place is considered to have only one place of business and shall attach the permit to the applicant's cart,

stand, truck, or other merchandising device.

(2) Each person or class of persons required to file a return under [sections 2 through 41] is required to file an application for a permit.

(3) Each application for a permit must be on a form prescribed by the department and must set forth the name under which the applicant intends to transact business, the location of the applicant's place or places of business, and other information that the department may require. The application must be filed by the owner if the owner is a natural person or by a person authorized to sign the application if the owner is a corporation, partnership, limited liability company, or some other business entity.

NEW SECTION. **Section 21. Revocation or suspension of permit -- appeal.** (1) Subject to the provisions of subsection (2), the department may, for reasonable cause, revoke or suspend any permit held by a person that fails to comply with the provisions of [sections 2 through 41].

(2) The department shall provide dispute resolution on a proposed revocation or suspension pursuant to 15-1-211.

(3) If a permit is revoked, the department may not issue a new permit except upon application accompanied by reasonable evidence of the intention of the applicant to comply with the provisions of [sections 2 through 41]. The department may require security in addition to that authorized by [section 29] in an amount reasonably necessary to ensure compliance with [sections 2 through 41] as a condition for the issuance of a new permit to the applicant.

(4) A person aggrieved by the department's final decision to revoke a permit, as provided in subsection (1), may appeal the decision to the state tax appeal board within 30 days after the date on which the department issued its final decision.

NEW SECTION. **Section 22. Improper use of subject of purchase obtained with nontaxable transaction certificate -- penalty.** (1) If a purchaser that uses a nontaxable transaction certificate uses the subject of the purchase for a purpose other than one allowed as nontaxable under [sections 2 through 41], the use is considered a taxable sale as of the time of first use by the purchaser and the sales price is the price that the purchaser paid. If the sole nonexempt use is rental while holding for sale, the purchaser shall include in the sales price the amount of the rental charged. Upon subsequent sale of the property, the seller shall include the entire amount of the sales price, without deduction of amounts previously received as rentals.

(2) A person that uses a certificate for property that will be used for a purpose other than the purpose claimed is subject to a penalty, payable to the department, of $100 for each transaction in which an improper use of a certificate has occurred.

(3) Upon a showing of good cause, the department may abate or waive the penalty or a portion of the penalty

NEW SECTION. **Section 23. Commingling nontaxable certificate goods.** If a purchaser uses a nontaxable transaction certificate with respect to the purchase of fungible goods and commingles these goods with fungible goods that were not purchased with a certificate but that are of such similarity that the identity of the goods in the commingled mass cannot be determined, sales from the mass of commingled goods are considered to be sales of the goods purchased with the certificate until the quantity of commingled goods sold equals the quantity of goods originally purchased under the certificate.

NEW SECTION. **Section 24. Liability for payment of tax -- security for retailer without place of business -- penalty.** (1) Liability for the payment of the sales tax and use tax is not extinguished until the taxes have been paid to the department.

(2) A retailer that does not maintain an office or other place of business within this state is liable for the sales tax or use tax in accordance with [sections 2 through 41] and may be required to furnish adequate security, as provided in [section 29], to ensure collection and payment of the taxes. When authorized and except as otherwise provided in [sections 2 through 41], the retailer is liable for the taxes upon all property sold and services provided in this state in the same manner as a retailer who maintains an office or other place of business within this state. The seller's permit provided for in [section 19] may be canceled at any time if the department considers the security inadequate or believes that the taxes can be collected more effectively in another manner.

(3) An agent, canvasser, or employee of a retailer doing business within this state may not sell, solicit orders for, or deliver any property or services within Montana unless the principal, employer, or retailer possesses a seller's permit issued by the department. If an agent, canvasser, or employee violates the provisions of [sections 2 through 41], the person is subject to a fine of not more than $100 for each separate transaction or event.

NEW SECTION. **Section 25. Application for permission to report on accrual basis -- rules.** (1) A person that has a seller's permit may apply to the department for permission to report and pay the sales tax or use tax on an accrual basis.

(2) The application must be made on a form, prescribed by the department, that contains information that the department may require.

(3) A person may not report or pay the sales tax or use tax on an accrual basis unless the person has received written permission from the department.

(4) The department may adopt rules to implement this section.

NEW SECTION. **Section 26. Returns -- payment -- authority of department.** (1) Except as provided in subsection (2), on or before the 20th day of the month following the calendar quarter in which the transaction subject to the tax imposed by [sections 2 through 41] occurred, a return, on a form provided by the department, and payment of the tax for the preceding quarter must be filed with the department. Each person engaged in business within this state or using property or services within this state that are subject to tax under [sections 2 through 41] shall file a return. A person making retail sales at two or more places of business shall file a separate return for each separate place of business.

(2) A person who has been issued a seasonal seller's permit shall file a return and pay the tax on the date or dates set by the department.

(3) (a) For the purposes of the sales tax or use tax, a return must be filed by:

(i) a retailer required to collect the tax; and

(ii) a person that:

(A) purchases any items the storage, use, or other consumption of which is subject to the sales tax or use tax; and

(B) has not paid the tax to a retailer required to pay the tax.

(b) Each return must be authenticated by the person filing the return or by the person's agent authorized in writing to file the return.

(4) (a) A person required to collect and pay to the department the taxes imposed by [sections 2 through 41] shall keep records, render statements, make returns, and comply with the provisions of [sections 2 through 41] and the rules prescribed by the department. Each return or statement must include the information required by the rules of the department.

(b) For the purpose of determining compliance with the provisions of [sections 2 through 41], the department is authorized to examine or cause to be examined any books, papers, records, or memoranda relevant to making a determination of the amount of tax due, whether the books, papers, records, or memoranda are the property of or in the possession of the person filing the return or another person. In determining compliance, the department may use statistical sampling and other sampling techniques consistent with generally accepted auditing standards. The department may also:

(i) require the attendance of a person having knowledge or information relevant to a return;

(ii) compel the production of books, papers, records, or memoranda by the person required to attend;

(iii) implement the provisions of 15-1-703 if the department determines that the collection of the tax is or may be jeopardized because of delay;

(iv) take testimony on matters material to the determination; and

(v) administer oaths or affirmations.

(5) Pursuant to rules established by the department, returns may be computer-generated and electronically filed.

(6) A person with collections of less than $10 in a reporting period is not required to remit a return or payment to the department.

NEW SECTION. **Section 27. Credit for taxes paid on worthless accounts -- taxes paid if account collected.** (1) Sales taxes paid on an accrual basis by a person filing a return under [section 26] on sales found to be worthless and actually deducted by the person as a bad debt for federal income tax purposes may be credited on a subsequent payment of the tax.

(2) Bad debts may be deducted within 12 months after the month in which the bad debt has been charged off for federal income tax purposes. "Charged off for federal income tax purposes" includes the charging off of unpaid balances due on accounts as uncollectible or declaring as uncollectible such unpaid balance due on accounts in the case of a seller who is not required to file federal income tax returns.

(3) If an account is subsequently collected, the sales tax must be paid on the amount collected.

(4) A seller may obtain a refund of tax on any amount of bad debt that exceeds the amount of taxable sales within a 12-month period defined by that bad debt.

(5) For purposes of computing a bad debt deduction or reporting a payment received on a previously claimed bad debt, any payments made on a debt or account are applied first to interest, service charges, and

any other charges and second to the price of the property or service and sales tax on the property or service, proportionally.

NEW SECTION. **Section 28. Vendor allowance.** (1) A person filing a timely return under [section 26] may claim a quarterly vendor allowance for each permitted location in the amount of 5% of the tax determined to be payable to the state, not to exceed $1,000 a quarter.

(2) The allowance may be deducted on the return.

(3) A person that files a return or payment after the due date for the return or payment may not claim a vendor allowance.

NEW SECTION. **Section 29. Security -- limitations -- sale of security deposit at auction -- bond.** (1) The department may require a retailer to deposit, with the department, security in a form and amount that the department, by administrative rule, determines is appropriate. The deposit may not be more than twice the estimated average liability for the period for which the return is required to be filed. The amount of security may be increased or decreased by the department, subject to the limitations provided in this section.

(2) (a) If necessary, the department may sell, at public auction, property deposited as security to recover any sales tax or use tax amount required to be collected, including interest and penalties.

(b) Notice of the sale must be served personally upon or sent by certified mail to the person that deposited the security.

(c) After the sale, any surplus above the amount due that is not required as security under this section must be returned to the person that deposited the security.

(3) In lieu of security, the department may require a retailer to file a bond, issued by a surety company authorized to transact business within this state, to guarantee solvency and responsibility.

(4) In addition to the other requirements of this section, the department may require the corporate officers, directors, or shareholders of a corporation to provide a personal guaranty and assumption of liability for the payment of the tax due under [sections 2 through 41].

NEW SECTION. **Section 30. Examination of return -- adjustments -- delivery of notices and demands.** (1) If the department determines that the amount of tax due is different from the amount reported, the amount of tax computed on the basis of the examination conducted pursuant to [section 26] constitutes the

tax to be paid.

(2) If the tax due exceeds the amount of tax reported as due on the taxpayer's return, the excess must be paid to the department within 30 days after notice of the amount and demand for payment is mailed or delivered to the person making the return unless the taxpayer files a timely objection as provided in 15-1-211. If the amount of the tax found due by the department is less than that reported as due on the return and has been paid, the excess must be credited or, if no tax liability exists or is likely to exist, refunded to the person making the return.

(3) The notice and demand provided for in this section must contain a statement of the computation of the tax and interest and must be sent by mail to the taxpayer at the address given in the taxpayer's return, if any, or to the taxpayer's last-known address.

(4) A taxpayer filing an objection to the demand for payment is subject to and governed by the uniform dispute review procedure provided in 15-1-211.

NEW SECTION. **Section 31. Penalties and interest for violation.** If a person fails to file a return on or before the due date or fails to pay a tax on or before a due date, the person must be assessed penalty and interest as provided in 15-1-216.

NEW SECTION. **Section 32. Authority to collect delinquent taxes.** (1) (a) The department shall collect taxes that are delinquent as determined under [sections 2 through 41].

(b) If a tax imposed by [sections 2 through 41] or any portion of the tax is not paid when due, the department may issue a warrant for distraint as provided in Title 15, chapter 1, part 7.

(2) In addition to any other remedy, in order to collect delinquent taxes after the time for appeal has expired, the department may direct the offset of tax refunds or other funds due the taxpayer from the state, except wages subject to the provisions of 25-13-614 and retirement benefits.

(3) As provided in 15-1-705, the taxpayer has the right to a review of the tax liability prior to any offset by the department.

(4) The department may file a claim for state funds on behalf of the taxpayer if a claim is required before funds are available for offset.

NEW SECTION. **Section 33. Interest on deficiency.** Interest accrues on unpaid or delinquent taxes

as provided in 15-1-216.

NEW SECTION. **Section 34. Limitations.** (1) Except in the case of a person that purposely or knowingly, as those terms are defined in 45-2-101, files a false or fraudulent return violating the provisions of [sections 2 through 41], a deficiency may not be assessed or collected with respect to a quarter for which a return is filed unless the notice of additional tax proposed to be assessed is mailed to or personally served upon the taxpayer within 5 years from the date that the return was filed. For purposes of this section, a return filed before the last day prescribed for filing is considered to be filed on the last day.

(2) If, before the expiration of the 5-year period prescribed in subsection (1) for assessment of the tax, the taxpayer consents in writing to an assessment after expiration of the 5-year period, a deficiency may be assessed at any time prior to the expiration of the period to which consent was given.

NEW SECTION. **Section 35. Refunds -- interest -- limitations.** (1) A claim for a refund or credit as a result of overpayment of taxes collected under [sections 2 through 41] must be filed within 5 years of the date that the return was due, without regard to any extension of time for filing.

(2) (a) Interest paid by the department on an overpayment must be paid or credited at the same rate as the rate charged on delinquent taxes under 15-1-216.

(b) Except as provided in subsection (2)(c), interest must be paid from the date that the return was due or the date of overpayment, whichever is later. Interest does not accrue during any period in which the processing of a claim is delayed more than 30 days because the taxpayer has not furnished necessary information.

(c) The department is not required to pay interest if:

(i) the overpayment is refunded or credited within 6 months of the date that a claim was filed; or

(ii) the amount of overpayment and interest does not exceed $1.

NEW SECTION. **Section 36. Administration -- rules.** The department shall:

(1) administer and enforce the provisions of [sections 2 through 41];

(2) cause to be prepared and distributed forms and information that may be necessary to administer the provisions of [sections 2 through 41]; and

(3) adopt rules that may be necessary or appropriate to administer and enforce the provisions of

[sections 2 through 41].

NEW SECTION. **Section 37. Revocation of corporate license -- appeal.** (1) If a corporation authorized to do business within this state and required to pay the taxes imposed under [sections 2 through 41] fails to comply with any of the provisions of [sections 2 through 41] or any rule of the department, the department may, for reasonable cause, certify to the secretary of state a copy of an order finding that the corporation has failed to comply with specific statutory provisions or rules.

(2) The secretary of state shall, upon receipt of the certification, revoke the certificate authorizing the corporation to do business within this state and may issue a new certificate only when the corporation has obtained from the department an order finding that the corporation has complied with its obligations under [sections 2 through 41].

(3) An order authorized in this section may not be made until the corporation is given an opportunity for dispute resolution as provided in 15-1-211.

(4) A final decision of the department may be appealed to the state tax appeal board.

NEW SECTION. **Section 38. Taxpayer quitting business -- liability of successor.** (1) (a) All taxes payable under [sections 2 through 41] are due and payable immediately whenever a taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(b) The taxpayer shall make a return and pay the taxes due within 10 days after the taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(2) Except as provided in subsection (4), a person that becomes a successor is liable for the full amount of the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient to pay any tax due until the taxpayer produces either a receipt from the department showing payment in full of any tax due or a statement from the department that tax is not due.

(3) If a tax is due but has not been paid as provided in subsection (1)(b), the successor is liable for the payment of the full amount of tax. The payment of the tax by the successor is considered to be a payment upon the sales price, and if the payment is greater in amount than the sales price, the amount of the difference becomes a debt due to the successor from the taxpayer owing the tax under subsection (1).

(4) (a) A successor is not liable for any tax due from the person that the successor acquired a business or stock of goods from if:

(i) the successor gives written notice to the department of the acquisition; and

(ii) an assessment is not issued by the department against the former operator of the business within 6 months of receipt of the notice from the successor.

(b) If an assessment is issued by the department, a copy of the assessment must also be mailed to the successor, or if an assessment is not mailed to the successor, the successor is not liable for the tax due.

NEW SECTION. **Section 39. Tax as debt.** (1) The tax imposed by [sections 2 through 41] and related interest and penalties become a personal debt of the person required to file a return from the time that the liability arises, regardless of when the time for payment of the liability occurs.

(2) (a) This section applies to those corporate officers, directors, or shareholders required by the department to personally guarantee the payment of the taxes for their corporations.

(b) The officer or employee of a corporation whose duty it is to collect, truthfully account for, and pay to the state the amounts imposed by [sections 2 through 41] and who fails to pay the tax is liable to the state for the amounts imposed by [sections 2 through 41] and the penalty and interest due on the amounts.

NEW SECTION. **Section 40. Information -- confidentiality -- agreements with another state.** (1) (a) Except as provided in subsections (2) through (4), it is unlawful for an employee of the department or any other public official or public employee to divulge or otherwise make known information that is disclosed in a report or return required to be filed under [sections 2 through 41] or information that concerns the affairs of the person making the return and that is acquired from the person's records, officers, or employees in an examination or audit.

(b) This section may not be construed to prohibit the department from publishing statistics if they are classified in a way that does not disclose the identity and content of any particular report or return. A person violating the provisions of this section is subject to the penalty provided in 15-30-303 or 15-31-511 for violating the confidentiality of individual income tax or corporation license information.

(2) (a) The department may enter into an agreement with the taxing officials of another state for the interpretation and administration of the laws of their state that provide for the collection of a sales tax or use tax in order to promote fair and equitable administration of the laws and to eliminate double taxation.

(b) In order to implement the provisions of [sections 2 through 41], the department may furnish information on a reciprocal basis to the taxing officials of another state if the information remains confidential

under statutes within the state receiving the information that are similar to this section.

(3) In order to facilitate processing of returns and payment of taxes required by [sections 2 through 41], the department may contract with vendors and may disclose data to the vendors. The data disclosed must be administered by the vendor in a manner consistent with this section.

(4) This section may not be construed to limit the investigative authority of the legislative branch, as provided in 5-11-106, 5-12-303, or 5-13-309.

NEW SECTION. **Section 41. Sales tax and use tax proceeds.** All money collected under [sections 2 through 41] must be deposited by the department into the general fund.

NEW SECTION. **Section 42. Capital gains credit.** An individual taxpayer is allowed a credit against the taxes imposed by 15-30-103 in an amount equal to 1% of the taxpayer's net capital gains, as shown on the taxpayer's individual income tax return filed pursuant to 15-30-142. The credit allowed under this section may not exceed the taxpayer's income tax liability.

Section 43. Section 13-37-218, MCA, is amended to read:

"13-37-218. Limitations on receipts from political committees. A candidate for the state senate may receive no more than ~~$1,000~~ $2,150 in total combined monetary contributions from all political committees contributing to the candidate's campaign, and a candidate for the state house of representatives may receive no more than ~~$600~~ $1,300 in total combined monetary contributions from all political committees contributing to the candidate's campaign. The limitations in this section must be multiplied by the inflation factor, as defined in 15-30-101, for the year in which general elections are held. The resulting figure must be rounded off to the nearest $50 increment. The commissioner shall publish the revised limitations as a rule. In-kind contributions must be included in computing these limitation totals. The limitation provided in this section does not apply to contributions made by a political party eligible for a primary election under 13-10-601."

Section 44. Section 15-30-101, MCA, is amended to read:

"15-30-101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

(1) "Base year structure" means the following elements of the income tax structure:

(a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of the taxable year;

(b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect on June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the ~~1967~~ 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

(a) that is treated as an association for federal income tax purposes;

(b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not in effect; and

(c) that is not a disregarded entity.

(4) "Department" means the department of revenue.

(5) "Disregarded entity" means a business entity:

(a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as those regulations may be labeled or amended; or

(b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

(6) "Dividend" means:

(a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

(b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

(7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

(8) "Foreign government" means any jurisdiction other than the one embraced within the United States, its territories, and its possessions.

(9) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in

section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding unemployment compensation included in federal gross income under the provisions of section 85 of the Internal Revenue Code (26 U.S.C. 85) as amended.

(10) "Inflation factor" means a number determined for each tax year by dividing the consumer price index for June of the tax year by the consumer price index for June ~~1980~~ 2006.

(11) "Information agents" includes all individuals and entities acting in whatever capacity, including lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all officers and employees of the state or of any municipal corporation or political subdivision of the state, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income with respect to which any person or fiduciary is taxable under this chapter.

(12) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be labeled or further amended. References to specific provisions of the Internal Revenue Code mean those provisions as they may be otherwise labeled or further amended.

(13) "Knowingly" is as defined in 45-2-101.

(14) "Limited liability company" means a limited liability company, domestic limited liability company, or a foreign limited liability company as defined in 35-8-102.

(15) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

(16) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

(a) a resident taxpayer on a lottery ticket; or

(b) a nonresident taxpayer on a lottery ticket purchased in Montana.

(17) (a) "Montana source income" means:

(i) wages, salary, tips, and other compensation for services performed in the state or while a resident of the state;

(ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise transferred while a resident of the state, or used or held in connection with a trade, business, or occupation carried on in the state;

(iii) gain attributable to the sale or other transfer of intangible property received or accrued while a resident of the state;

(iv) interest received or accrued while a resident of the state or from an installment sale of real property

or tangible commercial or business personal property located in the state;

(v) dividends received or accrued while a resident of the state;

(vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state or while a resident of the state;

(vii) net income or loss derived from farming activities carried on in the state or while a resident of the state;

(viii) net rents from real property and tangible personal property located in the state or received or accrued while a resident of the state;

(ix) net royalties from real property and from tangible real property to the extent the property is used in the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the royalty period in the tax year and the denominator of which is the number of days of physical location of the property everywhere during all royalty periods in the tax year. If the physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in which it was located at the time the person paying the royalty obtained possession.

(x) patent royalties to the extent the person paying them employs the patent in production, fabrication, manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are received or accrued while a resident of the state;

(xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties are received or accrued while a resident of the state;

(xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiv) social security benefits received or accrued while a resident of the state;

(xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits received while a resident of the state; and

(xvi) any other income attributable to the state, including but not limited to lottery winnings, state and federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

(b) The term does not include:

(i) compensation for military service of members of the armed services of the United States who are not Montana residents and who are residing in Montana solely by reason of compliance with military orders and does not include income derived from their personal property located in the state except with respect to personal property used in or arising from a trade or business carried on in Montana; or

(ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

(18) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this chapter.

(19) "Nonresident" means a natural person who is not a resident.

(20) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(21) "Partner" means a member of a partnership or a manager or member of any other entity, if treated as a partner for federal income tax purposes.

(22) "Partnership" means a general or limited partnership, limited liability partnership, limited liability company, or other entity, if treated as a partnership for federal income tax purposes.

(23) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

(24) "Pension and annuity income" means:

(a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary

upon the cessation of employment;

(b) payments received as the result of past service and cessation of employment in the uniformed services of the United States;

(c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are included in federal adjusted gross income;

(d) distributions from individual retirement, deferred compensation, and self-employed retirement plans recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

(e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular employment.

(25) "Purposely" is as defined in 45-2-101.

(26) "Received", for the purpose of computation of taxable income under this chapter, means received or accrued, and the term "received or accrued" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(27) "Resident" applies only to natural persons and includes, for the purpose of determining liability to the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the state of Montana and any other person who maintains a permanent place of abode within the state even though temporarily absent from the state and who has not established a residence elsewhere.

(28) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is in effect.

(29) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in proportion to their previous holdings.

(30) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and exemptions provided for in this chapter.

(31) ~~"Taxable year" or "tax year"~~ "Tax year" means the taxpayer's taxable year for federal income tax purposes.

(32) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation."

Section 45. Section 15-30-103, MCA, is amended to read:

"15-30-103. Rate of tax. (1) There ~~shall~~ must be levied, collected, and paid for each ~~taxable~~ tax year ~~commencing on or after December 31, 1968,~~ upon the taxable income of ~~every~~ each taxpayer subject to this tax, after making allowance for exemptions and deductions as ~~hereinafter~~ provided in this chapter, a tax on the ~~following~~ brackets of taxable income as follows:

(a) for tax year 2005, the following rates:

(i) on the first $2,800 of taxable income or any part of that income, 1%;

(ii) on the next $1,400 of taxable income or any part of that income, 2%;

(iii) on the next $2,400 of taxable income or any part of that income, 3%;

(iv) on the next $2,600 of taxable income or any part of that income, 4%;

(v) on the next $3,200 of taxable income or any part of that income, 5%;

(vi) on the next $3,000 of taxable income or any part of that income, 6%;

(vii) on any taxable income in excess of $15,600 or any part of that income, 6.9%;

(b) for tax years beginning after December 31, 2005, as adjusted under subsection (2), ~~at~~ the following rates:

~~(a)~~(i) on the first ~~$1,000~~ $3,400 of taxable income or any part ~~thereof~~ of that income, ~~2%~~ 1%;

~~(b)~~(ii) on the next ~~$1,000~~ $2,100 of taxable income or any part ~~thereof~~ of that income, ~~3%~~ 2%;

~~(c)~~(iii) on the next ~~$2,000~~ $2,400 of taxable income or any part ~~thereof~~ of that income, ~~4%~~ 3%;

~~(d)~~(iv) on the next ~~$2,000~~ $3,000 of taxable income or any part ~~thereof~~ of that income, ~~5%~~ 4%;

~~(e)~~(v) on the next ~~$2,000~~ $2,300 of taxable income or any part ~~thereof~~ of that income, ~~6%~~ 5%;

~~(f)~~(vi) on the next ~~$2,000~~ $2,300 of taxable income or any part ~~thereof~~ of that income, ~~7%~~ 6%;

~~(g) on the next $4,000 of taxable income or any part thereof, 8%;~~

~~(h) on the next $6,000 of taxable income or any part thereof, 9%;~~

~~(i) on the next $15,000 of taxable income or any part thereof, 10%;~~

~~(j)~~(vii) on any taxable income in excess of ~~$35,000~~ $15,500 or any part ~~thereof~~ of that income, ~~11%~~ 6.9%.

(2) ~~By~~ For tax years beginning after December 31, 2005, by November 1 of each year, the department shall multiply the bracket amount contained in subsection (1)(b) by the inflation factor for that ~~taxable~~ tax year and round the cumulative brackets to the nearest $100. The resulting adjusted brackets are effective for that ~~taxable~~ tax year and ~~shall~~ must be used as the basis for imposition of the tax in subsection (1)(b) of this section."

Section 46. Section 15-30-112, MCA, is amended to read:

"15-30-112. Exemptions. (1) Except as provided in subsection (6), in the case of an individual, the exemptions provided by subsections (2) through (5) ~~shall~~ must be allowed as deductions in computing taxable income.

(2) (a) An exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for the taxpayer~~ all taxpayers.

(b) An additional exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(3) (a) An additional exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the taxpayer if ~~he~~ the taxpayer has attained the age of 65 before the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse has attained the age of 65 before the close of ~~such taxable~~ the tax year and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(4) (a) An additional exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for~~ the taxpayer if ~~he~~ the taxpayer is blind at the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse is blind and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer. For the purposes of this subsection (4)(b), the determination of whether the spouse is blind ~~shall~~ must be made as of the close of the ~~taxable~~ tax year of the taxpayer, except that if the spouse dies during ~~such taxable~~ the tax year, ~~such~~ the determination ~~shall~~ must be made as of the time of ~~such~~ death.

(c) For purposes of this subsection (4), an individual is blind only if ~~his~~ the person's central visual acuity does not exceed 20/200 in the better eye with correcting lenses or if ~~his~~ visual acuity is greater than 20/200 but

is accompanied by a limitation in the fields of vision ~~such~~ to an extent that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(5) (a) An exemption of ~~$800~~ $1,950 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for~~ each dependent:

(i) whose gross income for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins is less than $800; or

(ii) who is a child of the taxpayer and who:

(A) has not attained the age of 19 years at the close of the calendar year in which the ~~taxable~~ tax year of the taxpayer begins; or

(B) is a student.

(b) ~~No~~ An exemption ~~shall be~~ is not allowed under this subsection for ~~any~~ a dependent who has made a joint return with ~~his~~ the dependent's spouse for the ~~taxable~~ tax year beginning in the calendar year in which the ~~taxable~~ tax year of the taxpayer begins.

(c) For purposes of subsection (5)(a)(ii), the term "child" means an individual who is a son, stepson, daughter, or stepdaughter of the taxpayer.

(d) For purposes of subsection (5)(a)(ii)(B), the term "student" means an individual who, during each of 5 calendar months during the calendar year in which the ~~taxable~~ tax year of the taxpayer begins:

(i) is a full-time student at an educational institution; or

(ii) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a state or political subdivision of a state. For purposes of this subsection (5)(d)(ii), the term "educational institution" means only an educational institution ~~which~~ that normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

(6) The department, by November 1 of each year, shall multiply all the exemptions provided in this section by the inflation factor for that ~~taxable~~ tax year and round the product to the nearest $10. The resulting adjusted exemptions are effective for that ~~taxable~~ tax year and ~~shall~~ must be used in calculating the tax imposed in 15-30-103."

Section 47. Section 15-30-121, MCA, is amended to read:

"15-30-121. Deductions allowed in computing net income. (1) In computing net income, there are

allowed as deductions:

(a) the items referred to in sections 161, including the contributions referred to in 33-15-201(5)(b), and 211 of the Internal Revenue Code of 1954 (26 U.S.C. 161 and 211), or as sections 161 and 211 are labeled or amended, subject to the following exceptions, which are not deductible:

(i) items provided for in 15-30-123;

(ii) state income tax paid;

(iii) premium payments for medical care as provided in subsection (1)(g)(i);

(iv) long-term care insurance premium payments as provided in subsection (1)(g)(ii);

(b) federal income tax paid within the tax year, not to exceed $5,000 for each taxpayer filing singly, head of household, or married filing separately or $10,000 if married and filing jointly;

(c) expenses of household and dependent care services as outlined in subsections (1)(c)(i) through (1)(c)(iii) and (2) and subject to the limitations and rules as set out in subsections (1)(c)(iv) through (1)(c)(vi), as follows:

(i) expenses for household and dependent care services necessary for gainful employment incurred for:

(A) a dependent under 15 years of age for whom an exemption can be claimed;

(B) a dependent as allowable under 15-30-112(5), except that the limitations for age and gross income do not apply, who is unable to provide self-care because of physical or mental illness; and

(C) a spouse who is unable to provide self-care because of physical or mental illness;

(ii) employment-related expenses incurred for the following services, but only if the expenses are incurred to enable the taxpayer to be gainfully employed:

(A) household services that are attributable to the care of the qualifying individual; and

(B) care of an individual who qualifies under subsection (1)(c)(i);

(iii) expenses incurred in maintaining a household if over half of the cost of maintaining the household is furnished by an individual or, if the individual is married during the applicable period, is furnished by the individual and the individual's spouse;

(iv) the amounts deductible in subsections (1)(c)(i) through (1)(c)(iii), subject to the following limitations:

(A) a deduction is allowed under subsection (1)(c)(i) for employment-related expenses incurred during the year only to the extent that the expenses do not exceed $4,800;

(B) expenses for services in the household are deductible under subsection (1)(c)(i) for

employment-related expenses only if they are incurred for services in the taxpayer's household, except that employment-related expenses incurred for services outside the taxpayer's household are deductible, but only if incurred for the care of a qualifying individual described in subsection (1)(c)(i)(A) and only to the extent that the expenses incurred during the year do not exceed:

(I) $2,400 in the case of one qualifying individual;

(II) $3,600 in the case of two qualifying individuals; and

(III) $4,800 in the case of three or more qualifying individuals;

(v) if the combined adjusted gross income of the taxpayers exceeds $18,000 for the tax year during which the expenses are incurred, the amount of the employment-related expenses incurred, to be reduced by one-half of the excess of the combined adjusted gross income over $18,000;

(vi) for purposes of this subsection (1)(c):

(A) married couples shall file a joint return or file separately on the same form;

(B) if the taxpayer is married during any period of the tax year, employment-related expenses incurred are deductible only if:

(I) both spouses are gainfully employed, in which case the expenses are deductible only to the extent that they are a direct result of the employment; or

(II) the spouse is a qualifying individual described in subsection (1)(c)(i)(C);

(C) an individual legally separated from the individual's spouse under a decree of divorce or of separate maintenance may not be considered as married;

(D) the deduction for employment-related expenses must be divided equally between the spouses when filing separately on the same form;

(E) payment made to a child of the taxpayer who is under 19 years of age at the close of the tax year and payments made to an individual with respect to whom a deduction is allowable under 15-30-112(5) are not deductible as employment-related expenses;

(d) in the case of an individual, political contributions determined in accordance with the provisions of section 218(a) and (b) of the Internal Revenue Code (now repealed) that were in effect for the tax year ended December 31, 1978;

(e) that portion of expenses for organic fertilizer and inorganic fertilizer produced as a byproduct allowed as a deduction under 15-32-303 that was not otherwise deducted in computing taxable income;

(f) contributions to the child abuse and neglect prevention program provided for in 52-7-101, subject

to the conditions set forth in 15-30-156;

(g) the entire amount of premium payments made by the taxpayer, except premiums deducted in determining Montana adjusted gross income, or for which a credit was claimed under 15-30-128, for:

(i) insurance for medical care, as defined in 26 U.S.C. 213(d), for coverage of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer; and

(ii) long-term care insurance policies or certificates that provide coverage primarily for any qualified long-term care services, as defined in 26 U.S.C. 7702B(c), for:

(A) the benefit of the taxpayer for tax years beginning after December 31, 1994; or

(B) the benefit of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer for tax years beginning after December 31, 1996;

(h) light vehicle registration fees, as provided for in 61-3-560 through 61-3-562, paid during the tax year; and

(i) per capita livestock fees imposed pursuant to 15-24-921, 15-24-922, 81-6-104, 81-6-204, 81-6-209, 81-7-118, or 81-7-201.

(2) (a) Subject to the conditions of subsection (1)(c), a taxpayer who operates a family day-care home or a group day-care home, as these terms are defined in 52-2-703, and who cares for the taxpayer's own child and at least one unrelated child in the ordinary course of business may deduct employment-related expenses considered to have been paid for the care of the child.

(b) The amount of employment-related expenses considered to have been paid by the taxpayer is equal to the amount that the taxpayer charges for the care of a child of the same age for the same number of hours of care. The employment-related expenses apply regardless of whether any expenses actually have been paid. Employment-related expenses may not exceed the amounts specified in subsection (1)(c)(iv)(B).

(c) Only a day-care operator who is licensed and registered as required in 52-2-721 is allowed the deduction under this subsection (2)."

Section 48. Section 15-30-122, MCA, is amended to read:

"15-30-122. Standard deduction. (1) A standard deduction equal to 20% of adjusted gross income is allowed if elected by the taxpayer on a return. The standard deduction is in lieu of all deductions allowed under 15-30-121. The minimum standard deduction is ~~$665~~ $1,620, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$1,500~~ $3,650,

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as adjusted under the provisions of subsection (2). However, in the case of a single joint return of husband and wife or in the case of a single individual who qualifies to file as a head of household on the federal income tax return, the minimum standard deduction is ~~$1,330~~ twice the amount of the minimum standard deduction for a single return, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$3,000~~ twice the amount of the maximum standard deduction for a single return, as adjusted under the provisions of subsection (2). The standard deduction may not be allowed to either the husband or the wife if the tax of one of the spouses is determined without regard to the standard deduction. For purposes of this section, the determination of whether an individual is married must be made as of the last day of the tax year unless one of the spouses dies during the tax year, in which case the determination must be made as of the date of death.

(2) By November 1 of each year, the department shall multiply both the minimum and the maximum standard deduction for single returns by the inflation factor for that tax year and round the product to the nearest $10. ~~The minimum and maximum standard deduction for joint returns and qualified head of household returns must be twice the amount of the minimum and maximum standard deduction for single returns.~~ The resulting adjusted deductions are effective for that tax year and must be used in calculating the tax imposed in 15-30-103."

Section 49. Section 15-30-142, MCA, is amended to read:

"15-30-142. Returns and payment of tax -- penalty and interest -- refunds -- credits. (1) For both resident and nonresident taxpayers, each single individual and each married individual not filing a joint return with a spouse and having a gross income for the tax year of more than ~~$1,500~~ $3,650, as adjusted under the provisions of subsection (7), and married individuals not filing separate returns and having a combined gross income for the tax year of more than ~~$3,000~~ $7,300, as adjusted under the provisions of subsection (7), are liable for a return to be filed on forms and according to rules that the department may prescribe. The gross income amounts referred to in the preceding sentence must be increased by ~~$800~~ $1,950, as adjusted under the provisions of 15-30-112(6), for each additional personal exemption allowance that the taxpayer is entitled to claim for the taxpayer and the taxpayer's spouse under 15-30-112(3) and (4).

(2) In accordance with instructions set forth by the department, each taxpayer who is married and living with husband or wife and is required to file a return may, at the taxpayer's option, file a joint return with husband or wife even though one of the spouses has neither gross income nor deductions. If a joint return is made, the

tax must be computed on the aggregate taxable income and the liability with respect to the tax is joint and several. If a joint return has been filed for a tax year, the spouses may not file separate returns after the time for filing the return of either has expired unless the department consents.

(3) If a taxpayer is unable to make the taxpayer's own return, the return must be made by an authorized agent or by a guardian or other person charged with the care of the person or property of the taxpayer.

(4) All taxpayers, including but not limited to those subject to the provisions of 15-30-202 and 15-30-241, shall compute the amount of income tax payable and shall, at the time of filing the return required by this chapter, pay to the department any balance of income tax remaining unpaid after crediting the amount withheld, as provided by 15-30-202, and any payment made by reason of an estimated tax return provided for in 15-30-241. However, the tax computed must be greater by $1 than the amount withheld and paid by estimated return as provided in this chapter. If the amount of tax withheld and the payment of estimated tax exceed by more than $1 the amount of income tax as computed, the taxpayer is entitled to a refund of the excess.

(5) As soon as practicable after the return is filed, the department shall examine and verify the tax.

(6) If the amount of tax as verified is greater than the amount paid, the excess must be paid by the taxpayer to the department within 60 days after notice of the amount of the tax as computed, with interest added as provided in 15-1-216. In that case, there may not be a penalty because of the understatement if the deficiency is paid within 60 days after the first notice of the amount is mailed to the taxpayer.

(7) By November 1 of each year, the department shall multiply the minimum amount of gross income necessitating the filing of a return by the inflation factor for the tax year. These adjusted amounts are effective for that tax year, and persons who have gross incomes less than these adjusted amounts are not required to file a return.

(8) Individual income tax forms distributed by the department for each tax year must contain instructions and tables based on the adjusted base year structure for that tax year."

NEW SECTION. **Section 50. Codification instruction.** (1) [Section 1] is not intended to be codified.

(2) [Sections 2 through 41] are intended to be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 2 through 41].

(3) [Section 42] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 42].

NEW SECTION. **Section 51. Saving clause.** [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

NEW SECTION. **Section 52. Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 53. Effective dates.** (1) Except as provided in subsection (2), [this act] is effective January 1, 2005.

(2) [Sections 43, 44, 46, 48, and 49] are effective January 1, 2006.

NEW SECTION. **Section 54. Applicability.** [This act] applies to the sale of goods and services after December 31, 2004.

- END -

FISCAL NOTE

Bill #: SB407 **Title:** Income tax reduction with revenue from limited sales tax

Primary Sponsor: Bob DePratu **Status:** As Introduced

2/19/03
Sponsor signature Date

2/18/03
Chuck Swysgood, Budget Director Date

Fiscal Summary	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$3,197,110	$4,200,531
Revenue:		
General Fund		$8,991,000
Net Impact on General Fund Balance:	($3,197,110)	$4,790,469

☐ Significant Local Gov. Impact	☐ Technical Concerns
☐ Included in the Executive Budget	☒ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This bill revises the state's individual income tax effective January 1, 2005 by:
   a) capping the current full deduction for federal income taxes paid during the tax year to $5,000 ($10,000 if married and filing jointly);
   b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
   c) providing for a new tax credit equal to 1% of net capital gains.
2. Under this bill, the current tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.
3. The bill provides for a new tax rate table for tax year 2005 and a new rate table for tax year 2006. The tax rate table provided for tax year 2006 will be indexed for inflation in all future tax years.
4. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2006). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.

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5. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $43,909,000 in tax year 2005, and by $74.010 million in tax year 2006 (DOR income tax simulation model).
6. The Department of Revenue will adjust withholding tables in tax years 2005 and 2006 to accommodate the reduction in tax liability, and taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $23,395,000 in fiscal year 2005, and by $60,942,000 in fiscal year 2006.

Limited Sales Tax

7. Beginning January 1, 2005, this bill would impose a 4% sales tax on prepared food, food sold through vending machines, alcoholic beverages sold by the drink, accommodations and campgrounds, rental vehicles, rental or lease of sporting goods, guided recreation and sightseeing, admissions, camp tuition, and recreation fees. All revenue would be deposited in the general fund.
8. Taxable sales in the six months of fiscal 2005 when the tax would be in effect would be $891.406 million. There would be 95% compliance. Vendors would collect $33.873 million in tax (95% x 4% x $891.406 million. Taxable sales in fiscal 2006 would be $1,838.079 million, and vendors would collect $68.797 million.
9. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. There would be one hundred vendors, accounting for 24% of taxable sales, for whom 5% of quarterly collections would be more than $1,000. The total amount retained for administrative allowances in fiscal 2005 would be $$1.487 million (100 vendors x $2,000 + 5% x 76% x $33.873 million). Net collections to the general fund in fiscal 2005 would be $32.386 million. Vendor allowances in fiscal 2006 would be $3.014 million, and net collections to the general fund would be $65.783 million.
10. The combination of the limited sales tax and the income tax changes would increase revenue to the general fund by $8.991 million in fiscal 2005 ($32.386 million - $23.395 million).

Administrative Impacts

11. The department of revenue would need a new computer system to administer the limited sales tax and would need to modify its existing income tax processing system. Costs to purchase new software and have it customized and to modify existing software would be $3,175,691 in fiscal 2004 and $3,222,746 in fiscal 2005. Office equipment and computers for contract programmers would be purchased in fiscal 2004 at a cost of $21,419. Ongoing costs for software maintenance and network and storage charges would be $220,000 beginning in fiscal 2006.
12. The department would need to hire 22 additional FTE to administer the limited sales tax. Thirteen would be hired at the beginning of fiscal 2005 so that they can be trained, conduct taxpayer education, and develop administrative rules before the tax goes into effect and begin compliance work once it is in effect. Five would be hired one-third of the way through fiscal 2005 so that they can be trained, develop, print and mail forms, and begin processing taxpayer registrations before the tax goes into effect. Four FTE would be added in fiscal 2006 for compliance work. Personnel costs would be $623,457 in fiscal 2005. Ongoing personnel costs beginning in fiscal 2006 would be approximately $847,000. Costs for office equipment and computers would be $104,400 in fiscal 2005 and $23,200 in fiscal 2006. Operating costs associated with these new positions would be $249,928 in fiscal 2005. Ongoing operating costs beginning in fiscal 2006 would be approximately $260,000.

Fiscal Note Request SB407, As Introduced
(continued)

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
FTE		18.00
Expenditures:		
Personal Services		$623,457
Operating Expenses	$3,175,691	$3,472,674
Equipment	$21,419	$104,400
TOTAL	$3,197,110	$4,200,531
Funding of Expenditures:		
General Fund (01)	$3,197,110	$4,200,531
Revenues:		
General Fund (01) - Individual Income Tax		$(23,395,000)
General Fund (01) - Limited Sales Tax		$32,386,000
General Fund (01) - Net Impact		$8,991,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$(3,197,110)	$4,790,469

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
The tax changes in this bill are permanent, and the Department of Revenue would continue to incur costs to administer the limited sales tax. Limited sales tax collections are projected to be $73.523 million for calendar year 2006 and will grow over time. Income tax collections are projected to *decrease* by $74.010 for calendar year 2006, and this will grow over time. Ongoing administrative costs are projected to be approximately $1.327 million per year. For calendar year 2006, the net effect is a loss to the general fund balance of $1.814. The net effect on the general fund in future years would depend on whether limited sales tax revenue grows faster or slower than the income tax.

L/4

SB 378 SPONSOR: Kitzenberg, Sam SHORT TITLE: Create certified capital company program
REFERRED ON: 02/11/2003 HEARD ON: 02/19/2003
INDEFINITELY POSTPONED: 03/26/2003
FINAL DISPOSITION: 04/03/2003 (S) Missed Deadline for Revenue Bill Transmittal

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SB 379 SPONSOR: Cobb, John SHORT TITLE: Disallow most tax deductions and credits for two years
REFERRED ON: 02/11/2003 HEARD ON: 02/18/2003
INDEFINITELY POSTPONED: 02/19/2003
FINAL DISPOSITION: 04/03/2003 (S) Missed Deadline for Revenue Bill Transmittal

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SB 407 SPONSOR: DePratu, Bob SHORT TITLE: Income tax reduction with revenue from limited sales tax
REFERRED ON: 02/14/2003 HEARD ON: 02/18/2003
REFERRED ON: 03/20/2003
EXECUTIVE ACTION: 03/18/2003 -Bill Passed as Amended -- VOTE: 7 - 4
EXECUTIVE ACTION: 03/28/2003 -Bill Passed as Amended -- VOTE: 7 - 4
FINAL DISPOSITION: 04/30/2003 Chapter Number Assigned

SB 408 SPONSOR: Nelson, Linda SHORT TITLE: Adjustment to state income tax for certain health care professionals
REFERRED ON: 02/14/2003 HEARD ON: 02/20/2003
EXECUTIVE ACTION: 02/20/2003 -Bill Passed -- VOTE: 10 - 1
FINAL DISPOSITION: 04/30/2003 Chapter Number Assigned

SB 414 SPONSOR: Pease, Gerald SHORT TITLE: Revise criteria for gasohol tax incentive payments
BY REQUEST OF: (S) Highways And Transportation Standing Committee
REFERRED ON: 02/15/2003 HEARD ON: 02/20/2003
EXECUTIVE ACTION: 02/20/2003 -Bill Passed as Amended -- VOTE: 11 - 0
FINAL DISPOSITION: 04/29/2003 Chapter Number Assigned

SB 433 SPONSOR: Ryan, Don SHORT TITLE: Soft drink tax for funding elder services, medicaid, student assessments
REFERRED ON: 02/18/2003 HEARD ON: 02/21/2003
INDEFINITELY POSTPONED: 03/20/2003
FINAL DISPOSITION: 04/03/2003 (S) Missed Deadline for Revenue Bill Transmittal

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MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on February 18, 2003 at 9 A.M., in Room 303 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Bob Story Jr., Vice Chairman (R)
Sen. Jerry W. Black (R)
Sen. John C. Bohlinger (R)
Sen. Jon Ellingson (D)
Sen. Jim Elliott (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Walter McNutt (R)
Sen. Mike Taylor (R)
Sen. Ken Toole (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society.

Committee Business Summary:

Hearing & Date Posted: SB 407, 2/14/2003;
SB 379, 2/12/2003

HEARING ON SB 407

Opening Statement by Sponsor:

9:04 **SEN. BOB DE PRATU, SD 40, Whitefish,** "Income tax reduction with revenue from limited sales tax".

Proponents' Testimony:

9:09 **JUDY MARTZ, GOVERNOR OF MONTANA**

9:14 Kurt Alme, Director, Department of Revenue reviewed **EXHIBIT(tas36a01)** in a power point presentation and referred to the "Brown Book" **EXHIBIT(tas36a02)** in his testimony. He presented further information in a packet **EXHIBIT(tas36a03), EXHIBIT(tas36a04), EXHIBIT(tas36a05)** and **EXHIBIT(tas36a06).**

9:36 Dave Gibson, Chief Business Officer, Governor's Office

9:41 **SEN. ROBERT STORY, SD 12, Park City**

9:45 **REP. JOE MC KENNEY, HD 49, Great Falls**

9:48 Gerald McConnell, President, Jore Corp., Ronan **EXHIBIT(tas36a07)**

9:54 Greg Gianforte, Pres/CEO, RightNow Corp, Bozeman **EXHIBIT(tas36a08)**

10:01 Rick Reisig, CPA, Hamilton Misfeldt & Company P.C., Gt Falls, Past President of MT Society of CPA's

10:04 George Olsen, CPA, Galusha Higgins & Galusha, Helena

10:07 Turner Askew, Turner Askew & Assoc., Whitefish, **EXHIBIT(tas36a09)**

10:09 David Johnson, CPA, Helena, Chairman of MT Society of CPA's Legislative Committee

10:11 Mike Scholz, Buck's T-4 Lodge owner, Big Sky Montana President of MT Innkeepers Assoc. **EXHIBIT(tas36a10)**

10:13 Marti Bara, Days Inn-Helena, Mgr., Vice President of MT Innkeepers Assoc. and member of Governor's Local Option Tax Advisory Committee. **EXHIBIT(tas36a11)**

10:14 Carl Kochman, Great Falls, Board member- MT Innkeepers Assoc., MT Chamber of Commerce

10:16 Bill Howell, West Yellowstone **EXHIBIT(tas36a12)**

10:19 Timothy J. Bartz, President, Anderson-Zurmuehlen & Company **EXHIBIT(tas36a13)**

10:21 John Lawton, Gt Falls City Manager, Tax Advisory Committee, MT League of Cities and Towns

10:24 Elizabeth Harris, Whitefish, Pres. of JOBS NOW. She submitted a letter from the JOBS NOW Board of Directors **EXHIBIT(tas36a14)**

10:27 Douglas J. Young, Professor of Economics, MSU, Bozeman **EXHIBIT(tas36a15)**

10:33 Alicia Bradshaw, Exec. Dir, Gallatin Development Corp.

10:35 Jon Marchi, Governor's Income Tax Advisory Council, Chairman, Big Sky Airlines, Rancher - Polson, MT Ambassadors Taxation Committee Chairman **EXHIBIT(tas36a16)**
10:41 Tom Harwood, Farmer, Toole County **EXHIBIT(tas36a17)**
10:49 Mark Staples, MT Tavern Assoc.
10:50 Tom Figarelle, Forward Montana
10:51 Barry "Spook" Stang, Exec. VP, MT Motor Carriers Assoc.
10:52 Haley Beaudry, Columbia Falls Aluminum Co.
10:53 Ronda Carpenter, MT Coin Machine Operators Assoc. and Great Falls Chamber of Commerce
10:54 Mary Whittinghill, MT Taxpayers Assoc.
10:54 Jerome Anderson, Helena, Encore Acquisition Co.
10:55 Dennis Iverson, MT Contractors Assoc.
10:55 Candace Payne, MT Rental Car Assoc.
10:55 Peggy Trenk, MT Assoc. of Realtors
10:56 Steve Turkiewicz, MT Auto Dealers Assoc.
10:56 Gail Abercrombie,MT Petroleum Assoc.
10:56 Pat Keim, Burlington Northern/Santa Fee RR
10:57 Charles Brooks, Billings Chamber of Commerce
10:58 Riley Johnson, National Federation of Independent Businesses
10:58 Mary Allen, Cenex Harvest States
10:59 Jake Cummins, MT Farm Bureau
10:59 John Cadby, MT Bankers Assoc. and 1st Interstate Bank
11:00 Keith Colbo, Exec. Dir., MT Independent Bankers
11:00 Webb Brown, MT Chamber of Commerce
11:00 John Bloomquist, MT Stockgrowers Assoc.
11:00 Cory Swanson, Plum Creek Timber Company
11:01 Rick Hays, Qwest
11:01 Bill Stevens, MT Food Distributors Assoc.
11:01 Jim Mockler, MT Coal Council
11:02 Carl Sweitzer, Bozeman and Kalispell Chambers of Commerce

Opponents' Testimony:
11:02 Verner Bertlesen, Chairman, MT Senior Citizens Assoc.
11:05 Archie Nunn, President, MT Senior Citizens Assoc.
11:07 Tempie Daigle, Clancy, Self
11:11 Rev. Bob Holmes, Helena, Self
11:16 Gene Fenderson, MT Progressive Labor Council, Teamsters Local # 190

Informational Witnesses:
11:20 Jean Johnson, MT Outfitters and Guides Assoc.

Questions from Committee Members and Responses:
11:23 Begin
12:04 Ended

41 min Time elapsed

Closing by Sponsor:
12:04 **SEN. DE PRATU** closed on SB 407

HEARING ON SB 379

Opening Statement by Sponsor:
12:07 **SEN. JOHN COBB, SD 25, Augusta** "Disallow most tax deductions and credits for two years".

Proponents' Testimony:
12:12 Gene Fenderson, MT Progressive Labor Council

Opponents' Testimony:
12:13 Tom Harwood, Galata, Self **EXHIBIT(tas36a18)**

Questions from Committee Members and Responses: None

Closing by Sponsor:
12:17 **SEN. COBB** closed on SB 379. **EXHIBIT(tas36a19)** and **EXHIBIT(tas36a20)**

ADJOURNMENT

Adjournment: 12:20 A.M.

_____
SEN. BOB DEPRATU, Chairman

_____
SHIRLEY HERRIN, Secretary

BD/SH

EXHIBIT(tas36aad)

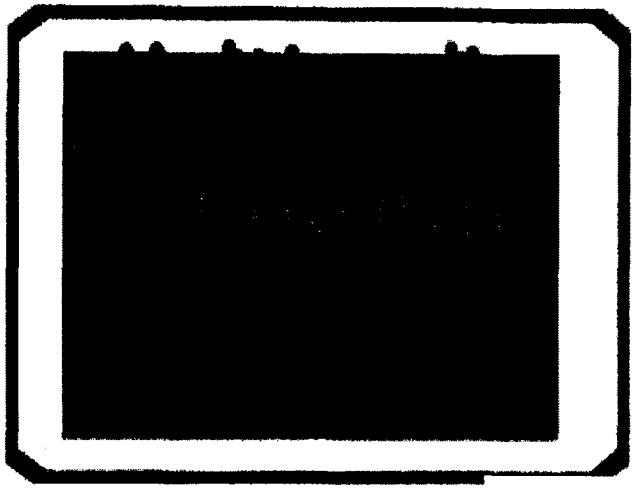


Exhibit Number: 1

This exhibit is a print copy of a Power point presentation; it exceeds the maximum amount of documents that can be scanned. If you wish to view this exhibit it is on file at the
Montana Historical Society
225 N. Roberts St.
Helena, MT 59601
(406) 444-4774

52

Exhibit: 2

This exhibit is a book, which pages exceed the maximum amount that can be scanned. If you wish to view it, it is on file at the Montana Historical Society 225 North Roberts Street Helena, MT 59701 (406) 444-4774

Exhibit: 3

This exhibit is a collection of several assorted documents which cannot be scanned because they exceed the maximum amount that can be scanned.

If you wish to view this exhibit it is on file at the
Montana Historical Society
225 North Roberts Street
Helena, MT 59701
(406) 444-4774

Ex #4

[redacted]

First...
Reform our individual income tax

- Reduce taxes overall by at least 10%
- Reduce our top marginal tax rate from 11% to 6.9% (see rate table)
- Provide for a 1% capital gains tax credit (maximum rate on capital gains of 5.9%)
- Cap the federal income tax deduction at $5,000 ($10,000 if married and filing jointly)

Martz/Ohs Proposal - TY2006

[redacted]			
0	2,400	2%	
2,400	4,900	3%	(24)
4,900	9,700	4%	(73)
9,700	14,600	5%	(170)
14,600	19,500	6%	(316)
19,500	24,300	7%	(511)
24,300	34,100	8%	(754)
34,100	48,700	9%	(1,095)
48,700	85,100	10%	(1,582)
85,100		11%	(2,433)

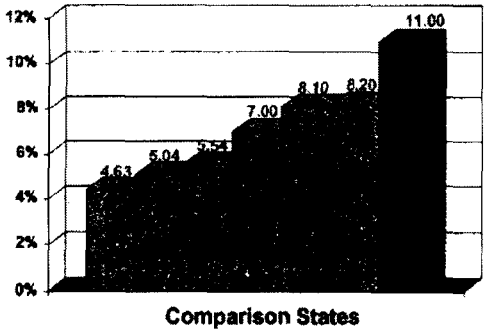
[redacted]			
0	3,400	1%	
3,400	5,000	2%	(34)
5,000	7,500	3%	(84)
7,500	10,000	4%	(159)
10,000	12,500	5%	(259)
12,500	15,000	6%	(384)
15,000		6.9%	(519)

Reducing our top marginal tax rate from 11% to 6.9% eliminates our "perception problem," makes Montana competitive when compared to neighboring Rocky Mountain States...

Current Law

Highest Statutory Income Tax Rate

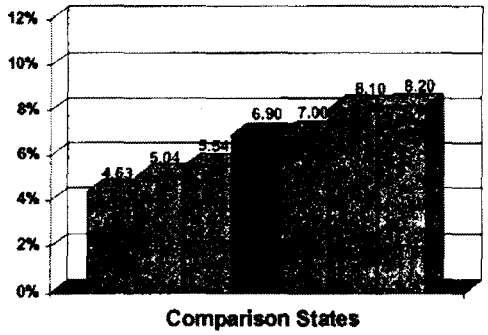
Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.



Proposed Law

Highest Statutory Income Tax Rate

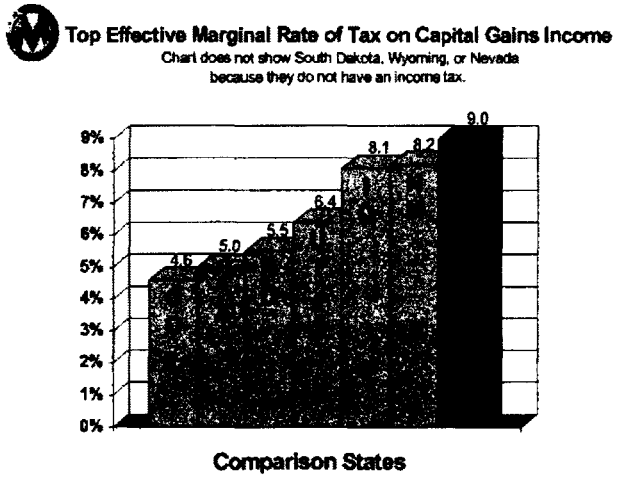
Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.



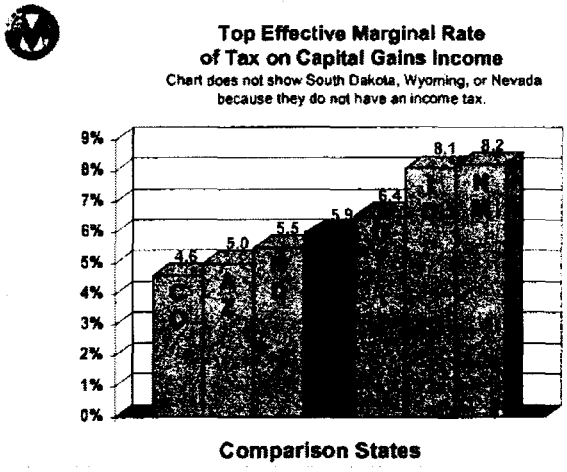
SENATE TAXATION
DATE FEB 18, 2003
EXHIBIT NO. 4
BILL NO. SB 407

...and reduces our combined federal/state effective tax rate on capital gains income by as much as 37%.

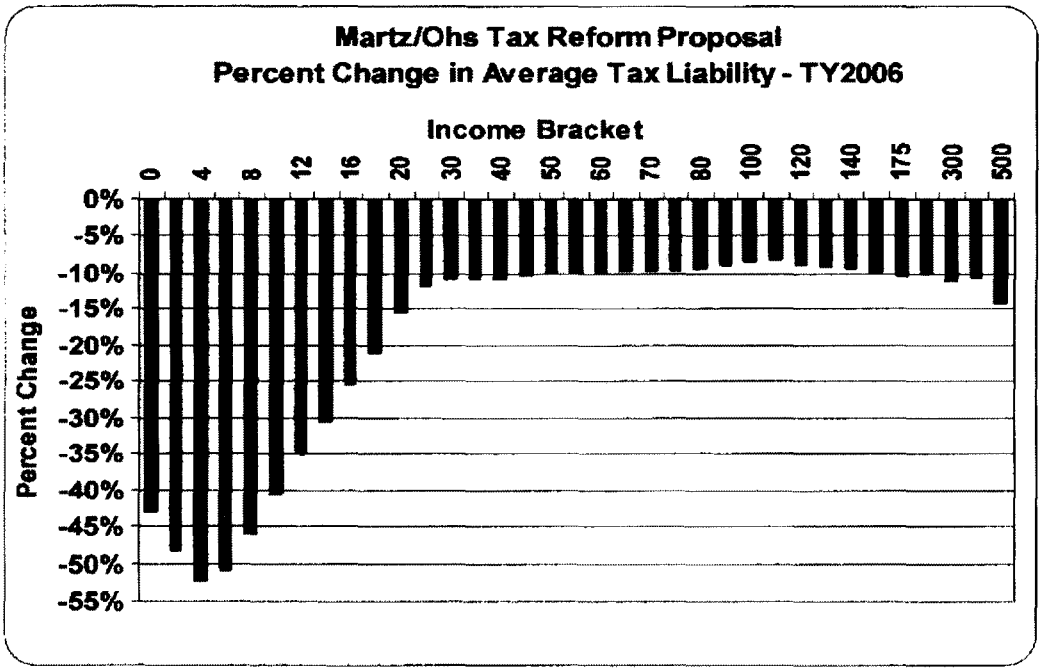
Current Law



Proposed Law



Individual income taxes decrease (68%), or don't change (29%) for 97% of all taxpayers. Average percentage reductions in tax are larger for low-income households to protect low-income taxpayers, and preserve progressivity of overall tax system.



Income taxes are reduced for households with ordinary income of $30,000 in regular years, and in years in which the household experiences a one-time capital gain from the sale of the taxpayer's business, ranch or farm.

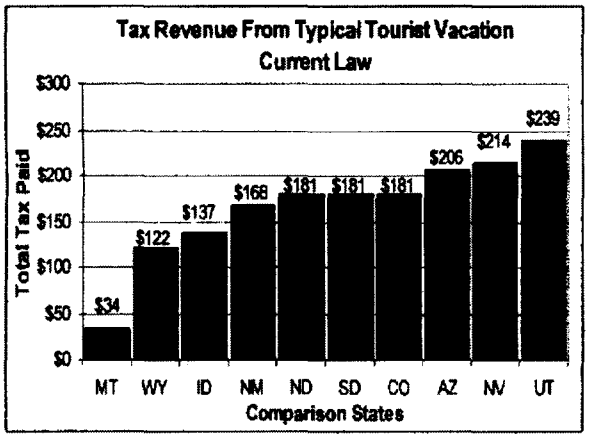
Impact on Married Couple Filing Jointly with $30,000 Ordinary Income and One Child	
Current Law Tax Liability	$610
Proposed Law Tax Liability	$517
Change in Tax (PL - CL)	**($93)**
Percent Change in Tax	**-15.25%**

Impact on Married Couple with $30,000 Ordinary Income; $500,000 Cap. Gains Inc. from One-Time Sale of Ranch, Farm, or Business		
Current Law Tax Liability		$43,688
Proposed Law Tax Liability		
- Before Capital Gains Tax Credit	$34,075	
- Capital Gains Tax Credit	(5,000)	
- After Capital Gains Tax Credit		$29,075
Change in Tax (PL - CL)		**($14,613)**
Percent Change in Tax		**-33.45%**

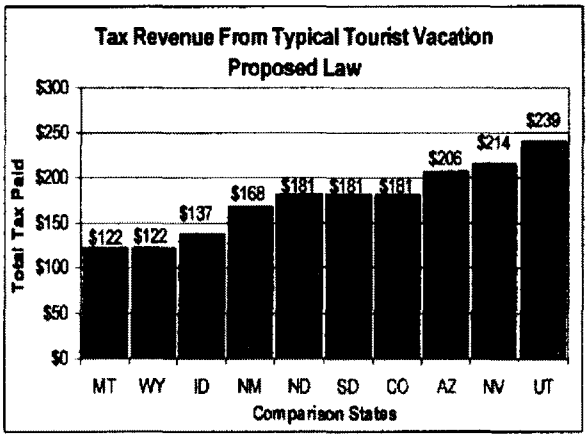
Second...

Provide replacement revenue

- A limited sales tax levied on items purchased largely by nonresidents
- Nonresidents pay approximately 44% of the total tax collected
- Montana merchants are compensated for collecting the tax with a "vendor allowance"



Amounts paid by tourists continue to be less than amounts paid in surrounding states.



Third...
Ensure a net benefit to Montana residents

- Resident income taxes reduced $69 million
- Resident limited sales taxes increased $38 million
- Resident federal income taxes increased $13 million due to reduced state income taxes
- Net state and federal tax on Montanans reduced $18 million
- Replacing all income tax with general sales tax would result in substantial federal income tax increase for residents

Shift of Tax Burden to Nonresidents
Tax Year 2006

Proposal Component	Montana Residents	Nonresidents	Total Impact
State Income Tax Cut	$(69 million)	$(5 million)	$(74 million)
Limited Sales Tax	$38 million	$30 million	$68 million
State Tax Change	**$(31 million)**	**$25 million**	**$(6 million)***
Fed. Income Tax Increase	$13 million	- 0 -	
Combined State and Federal Tax Change	**$(18 million)**	**$25 million**	

Nonresidents pay 7% of the income tax, but will pay approximately 44% of replacement revenue. Above impacts do not include any reduction in federal tax that may arise due to the deductibility of sales taxes paid by businesses.

**Although state tax collection are reduced in 2006, the plan is revenue neutral over the 2005 biennium.*

On average, taxpayers in all income classes are nearly as well off, or better off, under this tax reform proposal.

Combined Income Tax / Replacement Revenue Impact
Montana Residents - By Income Bracket - CY2006

Income Bracket	Income Tax Reduction	Limited Sales Tax	Net Tax Impact
$5,000 to $9,999	($38)	$40	$2
$10,000 to $14,999	($66)	$52	($14)
$15,000 to $19,999	($83)	$70	($13)
$20,000 to $29,999	($85)	$88	$3
$30,000 to $39,999	($117)	$115	($2)
$40,000 to $49,999	($161)	$129	($32)
$50,000 to $69,999	($227)	$159	($68)
$70,000 and over	($766)	$257	($509)
Statewide	**($179)**	**$110**	**($69)**

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 5
BILL NO. SB 407

MONTANA TOURISM ADVISORY COUNCIL
301 S Park
Helena, MT 59620

Contact: Kathy Brown
Tourism Advisory Council Chair
(406) 443-2160

For Immediate Release

MONTANA'S TOURISM ADVISORY COUNCIL SUPPORTS MARTZ TAX REFORM POLICY

Helena, MT-October 30, 2002 – The Montana Tourism Advisory Council (TAC) voted to support two components of the Martz Tax Reform Policy at a recent TAC meeting held in Miles City. TAC supports the concept of finding a replacement tax to offset the reduction in capitol gains tax and the proposed 10% income tax cut for Montanans.

"We believe the proposed selective tax, which is a limited sales tax on those goods and services of which nonresidents buy the most, will not adversely affect Montana's tourism industry," said Kathy Brown, TAC Chair. "While there have been some Big Sky area businesses concerned the selective tax is unfair and would cut into their businesses, overall we don't anticipate a negative impact."

Brown explained that TAC is in support of the selective tax as long as it does not exceed 4% and that the structure and budget of the "Bed Tax" for tourism marketing remain at least at the current level. The Montana Department of Commerce's Travel Montana received approximately $7.2 million in 2002 to support marketing efforts. TAC also advocates additional promotional funding to insure the economic viability of the tourism industry.

The Martz Tax Reform Plan proposes to cut income taxes by 10% in a manner that benefits all classes of Montana taxpayers, and to reduce Montana's effective capital gains rates, which are the highest in the region.

The Governor-appointed TAC is currently composed of 16 Montanans from the private sector travel industry. The role of TAC is to advise the Governor on matters relating to travel and tourism in Montana, make recommendations to The Department of Commerce, Travel Montana, and oversee the distribution of funds as well as set regulations for Montana's six non-profit tourism regions and ten Convention and Visitor Bureaus.

Tourism is one of Montana's largest industries. Montana hosted 9.55 million nonresidents in 2001. These visitors spent $1.6 billion during their stay.

-30-

MONTANA CPA

Montana Society of Certified Public Accountants

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JAN 0 2 2003
DIRECTOR'S OFFICE

December 31, 2002

Kurt Alme, Director
Montana Department of Revenue
PO Box 5805
Helena, MT 59604-5805

Dear Kurt:

At our September Board meeting you asked the Montana Society of CPAs to consider endorsing the proposed tax plan developed by the Governor's Tax Advisory Councils. As promised, we asked our Legislative and State Taxation Committees to review this issue and make recommendations to the Board.

This issue was discussed at length at our December meeting and the Board determined their position to be as follows:

> *The Montana Society of CPAs Board of Directors supports the concept of lowering the top marginal tax rates to be comparable to other states for purposes of economic development. The proposal must remain revenue neutral.*

We thank you for allowing us to be a part of this process and we look forward to working with you and your staff during the legislative session.

Sincerely,

Jane Egan
Executive Director

33 S. Last Chance Gulch Suite 28 • Helena MT 59601 • Phone: 406-442-7301 • Toll Free In MT: 800-272-0307 • Fax: 406-443-[illegible] • www.[illegible]

December 20, 2002

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DEC 23 2002
DIRECTOR'S OFFICE

MONTANA BANKERS ASSOCIATION
1 N. Last Chance Gulch
Suite 4
Helena, MT 59601
Fax (406) 443-7850
Phone (406) 443-4121

Kurt Alme, Director
Montana Department of Revenue
Sam W. Mitchell Building
P.O. Box 5805
Helena, MT 59604-5805

Dear Kurt Alme:

On behalf of the 80 banks in Montana, we endorse the Administration's tax plan. We agree reducing the income tax and replacing it with a tourist sales tax will be an incentive for economic growth for all Montanans.

Thank you again for your presentation to our volunteer leaders at their meeting in Helena last month.

I will be happy to assist you in passing this proposal.

Respectfully Yours,

John T. Cadby
President/CEO

Montana AMBASSADORS

Department of Commerce • PO Box 200501 • Helena, MT 59620-0501 • 406/444-3797

December 19, 2002

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DEC 23 2002

DEPARTMENT OF COMMERCE
DIRECTOR'S OFFICE

Mr. Mark Simonich
Director
Montana Department of Commerce
P.O. Box 200501
Helena, MT 59620-0501

Re: Martz/Ohs Tax Reform Plan for 2003

Dear Mark:

The Montana Ambassadors have long supported realistic tax reform to enhance economic development strategy for the state. My position paper earlier this year to all Ambassadors stated just this position.

The administration's tax reform plan is viewed as both needed and sensible. The state legislature must take these steps in order to bring our state into a more attractive and competitive position. The effort of all those who dedicated time and personal attention to the Tax Advisory Councils should be fully recognized, and their findings carefully considered. Their effort should not be in vain.

Accordingly, on behalf of the Montana Ambassadors, I fully support the proposed Tax Reform Plan, and we stand ready to testify in support thereof.

Sincerely yours,

John P. Langenheim
President

cc (e-mail): Mr. D. Anderson
Mr. E. Erhardt
Mr. K. Colbo

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Draft

MIKA POSITION
GOVERNOR'S TAX PLAN
Adopted at General Membership Meeting, November 19, 2002

"The Montana Innkeepers Association (MIKA) supports the Governor's Proposed Tax Plan to lower the state's Capital Gains Tax and the Personal Income Tax by using revenue generated from a selective sales tax. MIKA offers support with the stipulation the Accommodation Tax currently allocated to tourism promotion be protected and further we request the promotional budget be increased to help economic development in the state.

MIKA also requests the name of the Governor's Tourist Tax be changed to clearly reflect the intent of the tax and to avoid creating a deterrent for inviting tourist to Montana."

AVERY® Avery 5366™ 1-800-GO-AVERY (462-8379) www.avery.com

December 16, 2002

Lieutenant Governor Karl Ohs,
State Capital
PO Box 201901
Helena, Montana 59620

Dear Karl,

Thank you for your recent letter regarding the status of the Martz Administration's tax plan. Montana Farm Bureau Federation is very pleased with the progress that has been made to date on the tax plan, and eagerly awaits the upcoming legislative session.

As you know, MFBF closely follows our policy book when making decisions regarding legislative issues. We look forward to supporting the essential elements of the plan as currently written. Our policy states, "We support a reduction of Montana capital gains tax", and "We support a sales tax or discretionary tax if it is at least revenue neutral with respect to agriculture."

It is past time for Montana to step off the escalator that our tax policy has put us on and find a new vehicle better suited to propel us toward our destination of economic recovery and longer term economic stability. Reducing the capital gains and income tax burden on Montanans is the imperative first step to creating a climate conducive to economic development. Not only will this greatly stimulate the agriculture sector, Montana's number one industry, but it will provide a solid foundation from which current and future businesses in our great state can rise.

Karl, I spoke with the Governor Thursday and suggested that momentum can be gained to help move the plan forward by comparing, associating with, and explaining the current tax plan side by side with the proposed tax plan that President Bush is advocating. The more people understand the positive and reinforcing influence our economy will gain by the synergy of the combined changes, the less opposition our plan may face. This could be a hard sell during a legislative session faced with budget deficits, however, if explained properly the positive long-term effects will clearly outweigh any short-term concerns. For better or worse the two are tied together. Lets make it for the better.

I look forward to discussions with you about this and other subjects at your convenience.

Sincerely,

Jake Cummins
Executive Vice President

Cc: State Board
Kurt Alme
Ralph Peck

Montana Chamber of Commerce

Your Business Advocate

RECEIVED
JAN 2 7 2003
DIRECTOR'S OFFICE

November 20, 2002

Governor Judy Martz
State of Montana
PO Box 200801
Helena, Montana 59620-0801

Governor Martz,

The Executive Committee of the Montana Chamber of Commerce voted yesterday to support the basic tenets of your Administration's tax reform proposal. We believe it is one good step in changing Montana's tax system and burden.

We have long been advocates of changing the punitive nature of Montana's individual income tax. While the effective rate is actually competitive with many states, we believe it is perceived negatively by casual observers because of confusion over federal deductibility. On the other hand, we know that the capital gains tax bite is a real problem, penalizing those who generate and accumulate the wealth that this state needs so desperately.

To replace the revenue from the restructuring of individual income taxes, we support the addition of a limited sales tax. We understand that Montanans would pay this tax. At the same time, they should see a similar, if not greater, reduction in their individual income tax, still coming out ahead. We want to emphasize that we are very cautious about placing too much burden on one industry. We are aware, however, of the support of the tourism industry as a whole toward this tax reform plan. We also do not feel that it would be a disincentive for our visitors, an important and growing part of our economy.

While the Montana Chamber of Commerce supports the income tax and limited sales tax portions of your plan, we do not support local option taxing authority. We feel that it only adds complexity and burden to our members and other businesses. We will continue to support a statewide general sales tax that provides significant other tax relief.

We were privileged to have two of our Board members on the Advisory Councils preparing your plan. I enjoyed working on the Tourist Tax Advisory Council and Karen Olson Beenken of Sidney participated on the Income Tax Advisory Council. The Montana Chamber of Commerce will continue to work on overall tax reform. In the meantime, we appreciate your effort to bring this solution forward.

Sincerely,

WB

Webb Scott Brown
President/CEO

Cc: Lt. Governor Karl Ohs
DOR Director Kurt Alme
Chief Business Officer David Gibson

2030 11th Ave., Suite 21 • P.O. Box 1730 • Helena, Montana 59624 • (406) 442-2405 • Fax (406) 442-2409 • dee@montanachamber.com

Kalispell Area Chamber of Commerce

October 23, 2002

The Honorable Judy Martz
Governor of Montana
Room 204, State Capital
PO Box 200801
Helena, MT 59620-0801

RE: Endorsement of Martz Administration Tax Reform Proposal

Dear Governor Martz:

I am writing to inform you that on October 22 the Board of Directors of the Kalispell Chamber of Commerce adopted a resolution in support of your Tax Reform Proposal.

The proposal will make income and capital gains tax rates more competitive in our region. It will result in a net decrease of taxes paid by Montana residents by transferring some of the burden to non-residents. Additionally, it provides a vehicle for local governments to reduce their property tax burden and provide a resource for economic development projects. The benefits of your proposal extend to every class of Montanan.

The Kalispell Chamber is a business association whose 700 members who employ forty-five percent of the workforce in Flathead County.

Thank you for putting forward this good proposal. We look forward to working with you in the upcoming legislative session.

Sincerely,

Joseph H. Unterreiner, President
Kalispell Area Chamber of Commerce

Cc: Kurt Alme, Department of Revenue
David Gibson, Office of Economic Opportunity
Webb Brown, Montana Chamber of Commerce
Flathead State Legislative Delegation

15 Depot Park • Kalispell, MT 59901
(406) 758-2800 • Fax (406) 758-2805 • Email: chamber@digisys.net • www.kalispellchamber.com

SENATE TAXATION
DATE Feb 18 2003
EXHIBIT NO. 6
BILL NO. SB 404

Tax Reform for Economic Development

Income and Capital Gains Reductions
Overview of Martz/Ohs Administration Tax Reform Plan

Governor Martz outlined a three-part Tax Reform Plan on April 15, 2002, as part of her overall economic development plan to create good paying jobs for Montana families. Three advisory councils were formed and made recommendations regarding each part of the plan. Those recommendations have been incorporated in the following plan.

- **Cut income taxes by approximately 10% so all classes of Montana taxpayers benefit, reduce Montana's income tax rates (highest in the country), and reduce our effective capital gains rates (highest in the region). (LC0810)**

  In our increasingly mobile society, businesses and individuals can move to the state that is most competitive. Montana gets compared regularly with other states in our region on financial and quality of life issues. Taxes are a large part of the financial comparison.

  When compared on our residential and commercial property tax rates and corporate income tax rates, Montana is generally competitive. Montana does not fare well on income and capital gains tax rates comparisons. This plan reduces Montana's income and capital gains tax rates, incorporating a credit on capital gains and a cap on federal deductibility. Specifically:

Income Tax

- Montana's top marginal income tax rate, at 11%, is the highest in the nation. Our 9% effective income tax rate is the highest in the region.
- These high rates lead business people, entrepreneurs and others to leave Montana or to exclude Montana from consideration when deciding where to locate.
- The plan cuts income taxes by approximately 10% in a manner that benefits all income levels of Montana taxpayers. The tax cut in 2006 would be approximately $74 million.

Capital Gains

- At 9%, Montana has the highest effective capital gains rate in the region, even higher than our effective rate on ordinary income. This is a result of our ability to deduct federal taxes paid on our state tax return.
- A high capital gains rate has several adverse economic effects. It causes business owners, farmers and ranchers to leave Montana for another state before selling their business, farm or ranch. It encourages out-of-state residents with real property to do a tax-free exchange for property in another state before selling and paying capital gains tax. These effects deprive Montana of jobs, investment and tax revenue.
- Families across all income brackets share in capital gains income, whether it's a sale of a farm, ranch, business, rental property, stock or other capital asset.
- The plan creates a credit on capital gains income which, together with the reduction in tax rates, reduces the top effective rate on capital gains.

Cap on Federal Deductibility

- The plan caps federal deductibility at $5,000 ($10,000 for married taxpayers filing jointly).

FACT SHEET

Tax Reform for Economic Development

Limited Sales Tax
Overview of Martz/Ohs Administration Tax Reform Plan

In order to address revenues lost by the reductions in income and capital gains, the Martz Administration proposes to implement a limited sales tax that significantly targets non-residents.

- **Replace lost tax revenue with a limited sales tax that significantly targets nonresidents. (LC0810)**

  The income and capital gains tax reductions will cause the economy to grow and generate more tax revenue, especially in the long-term. In the short-term we will need to find another source of revenue.

  Most other states share their tax burden out-of-state. To share our tax burden with nonresidents, we need to do so under a tax of which nonresidents will pay a significant portion. Specifically:

  - The plan contains a replacement tax that is a limited sales tax on those goods and services of which nonresidents buy the highest percentage. The limited sales tax will be paid approximately 44% by nonresidents as opposed to nonresidents paying 7% of the state's income tax, a shift of 37% of the tax liability out-of-state.
  - The rate of tax will be 4%. The tax will be on the following goods and services: prepared food and drink, accommodations, rental cars, rental of recreational equipment, guided recreation and sightseeing, admissions (except for movies and amateur athletics) and recreation fees. The plan reduces state taxes on Montanans by $31 million per year, and combined federal and state taxes by $18 million per year.
  - Businesses collecting the tax will be allowed to keep up to 5% of the tax collected to offset the cost of collection activity.

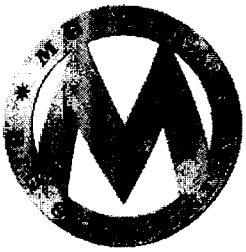
When the income tax reductions and limited sales tax are considered together:

- ✓ Income tax rates are more competitive
- ✓ Effective capital gains tax rates are more competitive
- ✓ Total taxes are decreased for Montanans and are increased for nonresidents
- ✓ All income levels of Montana taxpayers are better off than under the current system
- ✓ These parts of the plan are intended to be revenue neutral for the state

Tax Reform for Economic Development

Local Option Tax

Overview of Martz/Ohs Administration Tax Reform Plan



The Administration's tax plan includes an option for voters to implement a limited sales tax on a local basis. The local option tax would be placed on the same items as the statewide limited sales tax.

- **Allow local voters to adopt a local option tax that would add on to the limited sales tax. (LC0804)**
  - The plan allows local voters to adopt up to a 3% local option tax that would add on to the statewide limited sales tax.
  - Counties and cities/towns in the economic region where a local option tax has been enacted would share 30% of the tax proceeds.
  - The local option tax would assist communities in economic development and in property tax relief.
  - If a city or county adopts the local option tax, at least 10% will go to property tax relief.
  - The local option tax would be on the same items as the statewide limited sales tax
    - prepared food and drink,
    - accommodations,
    - rental cars,
    - rental of recreational equipment,
    - guided recreation and sightseeing,
    - admissions (except for movies and amateur athletics), and
    - recreation fees.
  - The local option tax would be administered by the state to minimize the administrative burden to businesses.

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 7
BILL NO. SB 407

SENATE Bill 407 (March)

Presentation to Legislative Committee on Tax Reform Helena, MT 2-18-03

Mr. Chairman, members of the Committee, my name is Jerry McConnell. I am president of Jore Corporation located in Ronan, Mt. and owner of a small manufacturing business located in Superior Mt. I appreciate the opportunity you have given to me to address tax issue's with which you are struggling.

I was born and raised on a farm in central Illinois. ~~After high school I joined General Electric Company as a janitor.~~ I started at GE as a janitor after 20 years, 12 moves and a degree and a half later, I left GE to pursue a major turnaround opportunity. 4 troubled company turnarounds and 4 moves later we moved to Montana and bought a small business.

It's through this small business that I became painfully familiar with the special challenges faced by a manufacturing business in Montana.

In March of 2001 I was asked to see if I could help at Jore Corporation.

The Company was a classic poster child for the reason the Federal Bankruptcy Code exists. A good child gone bad, but salvageable.

So my remarks are based on 2 perspectives, a small business owner and President of a large corporation.

The issues I'm about to cover are serious deterrents to attracting new manufacturing companies to Montana.

To be successful in any business you must know in detail the environment in which you must operate.

The Montana Environment is as follows:

One of the highest started personal income tax rates in the country, 11.3% - and that bracket kicks in early.

The Highest Capital Gains Tax Rate in the country.

70

Workers compensation rules and costs that are out of step with states committed to growing the manufacturing sector. The rules are so slanted toward the employee, that realistic application of rules that reward legitimate workers compensation issues and punish illegitimate ones, force employers to throw in the towel.

Transportation penalties imposed by geographic and demographics – (at Jore over 2/3 of our products are shipped East of the Mississippi and well over half of our purchased materials come from that region of the country).

Lack of infrastructure, by that I mean access to suppliers, capital, and other resources. Normally business grows business, but that natural growth is stunted in Montana.

7 1

Business property tax rates that are, to be kind, outrageous.

An "Agriculture" Bias

In 2000 agriculture comprised 7% of the states economy, manufacturing 5%, yet because of the state's heritage, the legislature and the actions taken by it reflect a bias toward agriculture related support at the expense of manufacturing. The focus is upon getting every hand out possible from Washington; not building an environment that encourages growth and attracts new businesses.

A "Service" Industry Bias

The largest segment of Montana's Economy is the service segment, making up 31% of Montana's Economy in 2000.

We bemoan our 47th place finish in the country's per-capita income race, yet we focus our efforts on low paying service industry growth jobs. We are getting exactly what were chasing.

47th in per-capita income – First in tax burden.

My point is that to overcome the inherent geographic, cultural, and natural obstacles faced by Montana Manufactures, a major change in attitude must take place and it starts with you.

Montana has about half the national average of manufacturing jobs – translation – good paying jobs.

We have just over 900,000 inhabitants – far fewer that that pay taxes.

In my view you need to do two things. Bold steps to be sure.

1. Look at your expenses as if it were your business. Get rid of all agencies and activities that do not add value in the proportion of funding they receive.

2. Stop taxing the existing tax base – the Montana citizen into extinction.

There are two ways for the State to get more money. Additional taxes on the existing population or increase the tax base – more business, more jobs, more people.

Its simple. It's not rocket science.

The Governor's tax plan begins to address the core issues faced here, and I support this initiative, but I encourage you to go further.

The tax crisis in Montana is like a 9" gash on your arm. You don't fix it one stitch at a time.

The tax base must be expanded. It can be done in two ways:

1. Add 9.55 million visitors a year to this base by implementing a sales tax now. ~~During the Lewis & Clark celebration years, this will be an even layer source of income.~~ States with high levels of tourism have high sales taxes – it's a no brainer. The logic Expressed here today that It's A good Thing to Tax ~~on~~ high STATE TAXES so we can deduct them from our federal taxes escapes us
2. To broaden the base long term you need more businesses and more wealth brought into this state.

Take the necessary steps now. Do it and they will come.

25

Immediate elimination of the state income, personal property, capital gain and business equipment taxes.

Without these steps you will have taken a stitch to the 9" gash.

You don't need to offer incentives to attract businesses to Montana. You offer incentives to get a business to move to Hoboken, NJ.

Elimination of the disincentives are all that's required.

Why wouldn't a business want to come here? Clean air, beauty, no traffic, a safe place to raise and educate their kids.

The incentives are here – remove the disincentives.

In 1970 a noted economist named Chase performed a complete and thorough study of Montana economic realities. His findings mirror the facts today. Few people, high taxes, low per-capita income, no manufacturing businesses – it's 30 years later and the song is still being sung.

I urge you to change the next verse. The people of Montana will support bold positive tax overhaul initiative. They won't support small incremental steps perceived to be chopping away at current problems, only to have them re-emerge in the future.

Greg Gianforte

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 8
BILL NO. SB 407

Intro

- I want to talk to you about creating and keeping high paying jobs in the state of Montana
- Technology/Manufacturing sector in Gallatin County is now 23% of total labor income – largest sector – more than agriculture, more than the university, more than any other sector – also, these tend to be the highest paying jobs. $50K-$28K
- RightNow, the firm I founded in 1998, is largest commercial employer in this sector with 240 employees in Bozeman
- Since inception, RightNow has brought over $117M into the state.
- And another $50M this year
- I am proud to say we just finished our 16th consecutive quarter of revenue growth and are hiring – check us out at www.rightnow.com and open jobs at www.iloveithere.com
- The good news is that virtually all of our expenses are wages - 76% - this is typical for a software firm.
- I think these are the type of jobs we want in the state.
- I want to explain how the current tax code affects RightNow and offer a few, hopefully politically acceptable, proposals to begin to fix it.

Issues

- The biggest impediment a business like ours faces in Montana is our tax code
- First – Recuiting
  - Problem: Our 11% incremental state income tax rate is a hurdle we must overcome with our highest paid employees. I have one employee who currently is located in Texas because he would not move to the state due to the tax code. Other top talent we have been unable to hire.
  - Solution #1: Eliminate federal deductibility and reduce the incremental rate in a revenue neutral manner – this will eliminate the shock effect of nation's highest rate with no state revenue impact
  - Solution #2: Use tourist taxes to further reduce the rate as much as possible. The lower the better – on a recruiting basis we compete with states with 0% state income tax.
- Second – Employee stock ownership
  - Problem: Most software firms grant stock to employees. When I founded RightNow I granted about 1/3 of all stock to our employees. Every employee is a stockholder. When we go public we estimate that employee owned stock, excluding stock held by myself, will result in taxable capital gains income of about $50M to employees. Unfortunately, because other states offer much lower or zero capital gains rates we are at risk of loosing our best employees and the state will loose the continuing W2 income. We have seen mass state exoduses before when companies like Powerhouse sold – the state never saw the capital gains revenue, because the key employees had moved from the state before the tax was due. We need some relief if we want to keep our key employees.
  - Solution: Modeled after a similar bill first passed in Nebraska, Senator Jerry Black has introduced a bill that would provide a reduced capital gains rate for employee owned stock in companies with headquarters in the state of Montana. Because historically there has limited, if any, capital gains associated with stock held by employees in companies that are headquartered in the state, this bill does not significantly reduce state revenues, however, it would be a huge incentive to attracting and keeping businesses and key employees to the state. I encourage you to support this bill.

Montana can be at the center of this developing Technology/Manufacturing sector, but not with the current tax code. I urge you to pass Senator Black's bill.

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 9
BILL NO. SB 407

EDAG
JAN 20, 2003

Good morning,

My name is Turner Askew, I am from Whitefish MT, and I have lived there full time since 1994. Although I grew up in Memphis TN, my grandfather moved to Montana in 1898, and my mother grew up in Havre Montana. I went to school at Northern Montana College in 1960. Every summer was spent with my grandparents in Montana so I feel like I have come home.

I have been in the Industrial Real Estate and Economic Development business since 1970, and have worked closely with the Economic Development Departments of Arkansas, Mississippi and Tennessee.

In 1970, one of the pioneers in Economic Development in Mississippi told me that Economic Development is easy. People go where they are invited, and stay where they are made welcome. We must find ways to do this in Montana. The point is not only to create jobs, but also to create careers for Montanans.

Our children do not leave Montana because they do not like it; they leave for the jobs, which are unavailable in Montana. We must attract some of these jobs to Montana or we will continue to export our trained people. We are not competing with Havre, Miles City, Great Falls or Butte. We are competing with the North West and the rest of the country for these jobs.

In other states, they use Start up Training as a tool to attract jobs. Start Up Training trains for jobs that exist in the state

that need to be filled or for jobs that would come to the state if trained workers existed. Start up training is not used for training people for out of state jobs.

Inducements are also used to attract better jobs in other states. These can be financial, i.e.: Loans, Bond Issues or Infrastructure development. It can also be a five-year Property Tax Deferral to help a company get over the cost of start up in the new location or the relocation cost.

Some people question giving away something to get jobs. In other states, they say you cannot give away what you do not have. These inducements are paid back after time in Wages, Taxes or Salary. You are merely putting off when you will be paid. Inducements are only used to attract above average jobs.

The question is how and what do we replace the lost mining, railroad and timber industry jobs with? Those jobs are almost gone. The new jobs exist. We need to identify the jobs that are suitable for Montana and will carry her people to the future. We must learn to compete with the rest of the country and the world.

Thank you for giving me this time to speak to you. I would be glad to answer any questions you might have.

Mr. Chairman & Committee
For the record - I'm Mike Lange
owner of Bar S T-4 Lodge in Big Sky, & President

The Montana Innkeepers are here today to support the Governor's tax proposal, not because it is best for our industry, but because it is the best tax proposal on the table for all Montanans.
Reducing income and capital gains tax rates is needed in Montana for all businesses and citizens.

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 10
BILL NO. SB 407

This plan represents the thinking of a wide variety of Montanans interested in bettering Montana as both a place to live and do business.

The Innkeeper's have gone on record over the last several legislative sessions supporting a broad based sales tax, if accompanied by tax reform.

At this time we believe the governor's plan to be the best alternative.
It is not as broad based as a general sales tax, but is still broad enough to raise sufficient revenue to have significant tax reform.
It is designed to be revenue neutral, while helping to promote needed business development.

Resident and non-resident inhabitants alike will no longer be encouraged by excessively high income and capital gains taxes to place their legal residency outside of the state of Montana - costing much needed tax revenue.

Speaking for my own business interest, I would hate to see and hope you would oppose just another tax on accommodations to back fill the general fund ~~at a time when the promotional dollars of the bed tax are continually being siphoned off.~~

Reducing Travel Montana's promotional dollars only hurts economic development efforts in Montana and increases the likelihood of the continued downward spiral in state ~~budget~~ TAX revenues.

According TO AN ITRR 2002 study ~~Today~~ over 20% of total Montana tax collections are attributable to the economic impact of non-resident travel expenditures within our state.

We should be thinking of how to increase state promotional dollars not decrease them. Grow the economy, not shrink it.

~~As Drafted~~ SB 407 though it does not increase promotional dollars, it will use these new tax revenues to better Montanan's lives through tax reform ~~- not just back fill the state budget.~~

~~No one industry should be asked to or can solve Montana's budget problems alone.~~

~~But~~, our state's problems need to be solved, not ignored or patched together for a later day.

We need to work together to create a business environment conducive to economic development and increasing employment, profitability and tax collections.

SB 407 does that better and more fairly than any other tax proposal that is likely to be accepted by the residents of Montana.

And that is why the Montana Innkeeper's Association has stepped forward to support this tax reform.

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 11
BILL NO. SB 407

For the record, my name is Marti Bara. I am the General Manager of the Days Inn here in Helena. I am the Vice President of the Montana Innkeepers Association and was privileged to be a member of the Governor's Local Option Tax Advisory Committee this past summer.

The Montana Innkeepers supports a broad based tax that the Governor's plan proposes. Though this tax does not include retail sales, a sector that receives the largest percentage of our nonresident traveler's dollars, it gives us a healthy start in tackling the states problems.

To remain competitive, our industry believes the tax on accommodations can not exceed 10%. We stand firm in our belief that the accommodation tax currently allocated to tourism promotion be protected so that this industry can continue to help the economic development in Montana.

Montana Innkeepers support SB407 as a step in the right direction.

Holiday Inn
SunSpree Resort
The West Yellowstone
CONFERENCE HOTEL

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 12
BILL NO. SB 407

February 18, 2003

Mr. Chairman, Committee Members, my name is Bill Howell, and I am from West Yellowstone, Montana. I have been in the hotel, restaurant, tavern and snowmobile business for the last 28 years. I am here to speak in support of the limited 4% sales tax on certain goods and services that are purchased by many non-residents when they visit our state, both summer and winter.

I have seen firsthand what a limited sales tax can do in a small community like West Yellowstone, and if such a limited 4% sales tax statewide can generate the revenue necessary to reduce state income tax and state capital gains tax, I believe it would be a very positive step for economic development and businesses in Montana.

When the state legislature gave West Yellowstone the authority to institute a 3% Resort Tax, it transformed our community from one

315 Yellowstone Ave. • PO Box 470 • West Yellowstone, Montana 59758
(406) 646-7365 • (800) 646-7365 • Fax (406) 646-4433

with dark, unpaved, pothole streets to one with nicely paved streets with sidewalks and street lighting. We now have a culinary water system, first class fire fighting equipment and emergency medical services, and a whole host of other infrastructure improvements that allow our community to service more than one million visitors each year. In addition, we have lowered our mill levy from 75 mills to 43 mills over the past 16 years. Just recently, the citizens of our community voted overwhelmingly to renew this limited sales tax for another 20 years beginning in 2006.

The Resort Tax as we know it today certainly has not deterred the non-residents from visiting our community, and our tax collections have risen from $502,000 in 1986 to $1,775,000 in 2002. I can remember when many of us in West Yellowstone sat in the original tax committee meetings and thought, that if we were really lucky, we might be able to collect $1,000,000 at the end of the original 20 year period. As you can see, we have exceeded that and our collections continue to grow. I believe that the state can tap into this new revenue source by asking the non-residents visiting our state to help support our state's infrastructure.

Most states have a state sales tax of some type, and many visitors are expecting to pay some sales tax and are very surprised that Montana doesn't have one. In fact, most visitors to West Yellowstone come from states with a much higher tax percentage and are surprised to pay only 3%.

In West Yellowstone, we also allow the local businesses to keep 5% of their tax collections to offset their costs. I believe this is a fair percentage, and would be adequate on a statewide basis as well. It only takes a minimal, one-time cash register or computer programming change to account for collecting this 4% tax, and the 5% hold back will cover the costs of this collection activity.

No one likes additional taxes, and certainly, we Montanans will pay some of this 4%, but we will get the benefit of an income tax and capital gains tax reduction, and the non-resident visitors will help Montana develop a better economic business climate, which in turn will help generate more revenue, make Montana businesses more competitive, and hopefully, attract new business to our state.

87

West Yellowstone was the first community that the state legislature allowed the privilege of collecting this type of tax, and certainly, many of you have seen the transformation in our community over the years. If similar economic development can be achieved statewide, I believe that this is a very sound way to generate revenue to benefit all Monatnans.

SENATE TAXATION
DATE FEB 18, 2003
EXHIBIT NO. 3
BILL NO. SB 407

The Montana Legislature is faced with critical decisions in many areas, not the least of which is the possible restructuring of our tax system. It was my pleasure to serve on the Income Tax Advisory Council this past summer. The group was comprised of people representing a number of different public interest groups and both political parties. I was heartened by the contribution of each member and the lack of politics involved. Even more amazing was the nearly unanimous consensus on recommendations provided to the Governor relative to income tax and capital gains restructuring.

The result of the Council's work was a plan to reduce the maximum tax bracket to 6.9% and the maximum capital gains tax rate of 5.9%. Both of these rates would place Montana in the middle of the pack in our region of the country. Montana faces a difficult perception and reality problem. The world view is that our income tax and capital gains rates are extremely high and in many cases this is also reality. Our present tax rate structure is a clear deterrent to business development and recruitment within our State. The income tax structure keeps quality employers from coming into Montana to take advantage of our premier work force.

The Governor's tax restructuring proposal involves another key element to keep the change revenue neutral. A special sales tax on tourism items allows us to transfer some $ 30 million in tax cost to Montana's visitors annually. The issue here is that visitors to Montana pay much less of a tax when coming to Montana than any state in our region. Further, taxation of these items does not appear to affect tourists buying decisions.

Some will say, "Do away with the income tax and just have a sales tax". The only winner here is the Federal government. Sales taxes are not deductible on the Federal income tax return. Therefore, Montanans would pay more Federal tax in addition to paying sales tax on most goods and services. Tourists would not pay enough of the sales tax to result in a net tax savings to most Montanans.

Others are concerned that the sales tax paid on tourism items by Montana residents will more than offset the reduction in our income taxes. Projections by the Department of Revenue reflect that in the worst case, all taxpayers in all income brackets at least break even with the current structure and many will have a tax savings as a result of the shift in the tax burden to our visitors.

Even in this critical time of budget deficit, it is imperative that we make the strategic move to change our tax structure. With the bulk of our revenues coming from the income tax bucket, we are significantly at risk for revenues when economic times turn sour. By creating a new revenue source, we capitalize on the concept of diversity and stand to benefit from the increased tourism numbers. Don't forget the projected tourism impact of the Lewis and Clark Bi-centennial over the next few years.

To survive and prosper as a State, Montana's Legislature must avoid the temptation to cling to the present because of the difficulty in balancing the budget. We must become

much more strategic in our efforts to retain existing business and attract other quality employers to Montana. Both our income tax revenues and tourism tax revenues will increase as we create a positive environment that is competitive in the world economy.

Timothy J. Bartz, CPA

SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 14
BILL NO. SB 407

Jobs Now, Inc.

An Economic Development Organization

129 Main Street ■ Kalispell, MT 59901 ■ Ph. 406.752.7711 ■ 1.888.870.5440 ■ Fax 406.257.7772 ■ www.jobs-now.org

February 12, 2003

Members of the Senate Tax Committee
Montana State Legislature

Dear Ladies and Gentlemen:

We are writing as the Board of Directors of Jobs Now, Inc., a privately funded economic development organization serving Flathead County. Our board is comprised of 17 business and community leaders in Flathead County who have supported economic development from our own pockets and given our time to work with local and new businesses. We are a nonpartisan organization and have never taken a position, as a board, on legislative issues.

We feel so strongly about the need for comprehensive tax reform in Montana that we are departing from our policy to endorse the Governor's Tax Package. We must have more private investment in Montana if we are going to create the kinds of good paying jobs we want. We believe our current capital gains and income tax structure is a major impediment to the economic prosperity we want for our communities and our state.

Montana's tax structure must be balanced. It's not much of an incentive to be a success in our state to know that you will be paying the highest capital gains rate in the country when you sell. We are surrounded by states with NO income tax at all: Wyoming, Washington, Nevada and South Dakota. While we are not advocating the abolition of income tax, we need to get our published rate more in line with other states.

We trust you will thoughtfully consider the bill being sponsored by Senator DePratu and look to Montana's future. It's time for comprehensive tax reform and we need strong leadership from each of you to make it a reality.

Respectfully yours,

Jean M. Parson

Jean M. Parson
Chairman of the Board
Jobs Now, Inc.

SENATE TAXATION
DATE Feb 18 2003
EXHIBIT NO. 15
BILL NO. SB 404

February 18, 2003

Taxes and Economic Development

Douglas J. Young
Professor of Economics
Montana State University - Bozeman

Are taxes important for economic development?

Yes, taxes are one of the factors which affect location decisions. If a state's taxes are too high, businesses and wealthy individuals may decide they are better off elsewhere. But taxes are not the only factor, nor even necessarily the most important one. Depending on the particular business and individuals involved, a state's regulatory structure, distance to markets and/or natural resources, the availability, skills and wages of labor, and amenities such as good schools, low crime and environmental quality may also weigh heavily in location decisions.

Are taxes high in Montana?

Total state and local taxes in Montana were 11.0% of income in 2000 (the latest year for which data are available), in comparison with a national average of 11.2%. States in the region had broadly similar tax burdens (Idaho11.4%, North Dakota 11.9%, South Dakota 9.4%, Wyoming 11.7%).[1] Taxes take a smaller fraction of income than they did 30 years ago.

Will simply cutting taxes stimulate economic development?

There is no simple relationship between tax rates, per capita incomes, and economic growth. The states with the highest per capita incomes - Connecticut, New Jersey, Massachusetts, and New York - have tax rates at or above the national average. The states with the most rapid economic growth in the last decade - Nevada, Colorado, Utah, and Arizona - had average tax rates. Many factors influence economic growth - taxes are just one of them, and not necessarily the most important.

Are there particular aspects of Montana's tax structure that may impede growth?

Montana's tax structure is different from other states primarily in three ways: First, Montana relies heavily on property taxes, in part because, and second, there is no general sales tax. Third, income taxes on wealthy people are among the highest in the country. An upper income family ($150,000) pays about $7,000 more to live in Montana than South Dakota, and about $8,700 more to live in Montana than Wyoming.[2] Effective tax rates are particularly high on capital gains, where we rank number one in the county. Capital gains taxes fall especially heavily on entrepreneurs who "grow" a business and then receive their return when they sell. Capital gains taxes also affect other individuals who incur large, one-time gains, for example by selling a farm or ranch. There is a whole industry of (largely legal) tax shenanigans associated with not realizing a capital gain subject to Montana income tax.

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[1] Source: US Bureau of the Census, *Government Finances in FY 1999-2000.*

[2] Source: *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison, 2001.*

SENATE TAXATION
DATE Feb 18 2003
EXHIBIT NO. 15
BILL NO. SB 404

February 18, 2003

Taxes and Economic Development

Douglas J. Young
Professor of Economics
Montana State University - Bozeman

Are taxes important for economic development?

Yes, taxes are one of the factors which affect location decisions. If a state's taxes are too high, businesses and wealthy individuals may decide they are better off elsewhere. But taxes are not the only factor, nor even necessarily the most important one. Depending on the particular business and individuals involved, a state's regulatory structure, distance to markets and/or natural resources, the availability, skills and wages of labor, and amenities such as good schools, low crime and environmental quality may also weigh heavily in location decisions.

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[1] Source: US Bureau of the Census, *Government Finances in FY 1999-2000.*

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SENATE TAXATION
DATE FEB 18 2003
EXHIBIT NO. 16
BILL NO. SB 407

February 18, 2003
Senate Taxation Committee
SB407, Senator Bob DePratu
Governor's Income Tax Reduction and Selective Sales Tax Implementation Plan

Testimony in Favor by Jon Marchi

Thank you for hearing me. I sat on the Income Tax Advisory Council last year which helped formulate the plan that you are now considering. I have lived in Montana since the age of three graduating from the University of Montana with a Master's degree in finance. Currently, I am involved in Montana's only active venture capital company. We have made five investments so far in Montana companies. We ranch outside Polson and I serve as the chairman of Big Sky Airlines. In addition, I am a past president of the Montana Ambassadors and currently serve as chairman of the Ambassadors taxation committee.

The Ambassadors are 100% behind SB407. This legislation is crucial to Montana's economic future. Why?

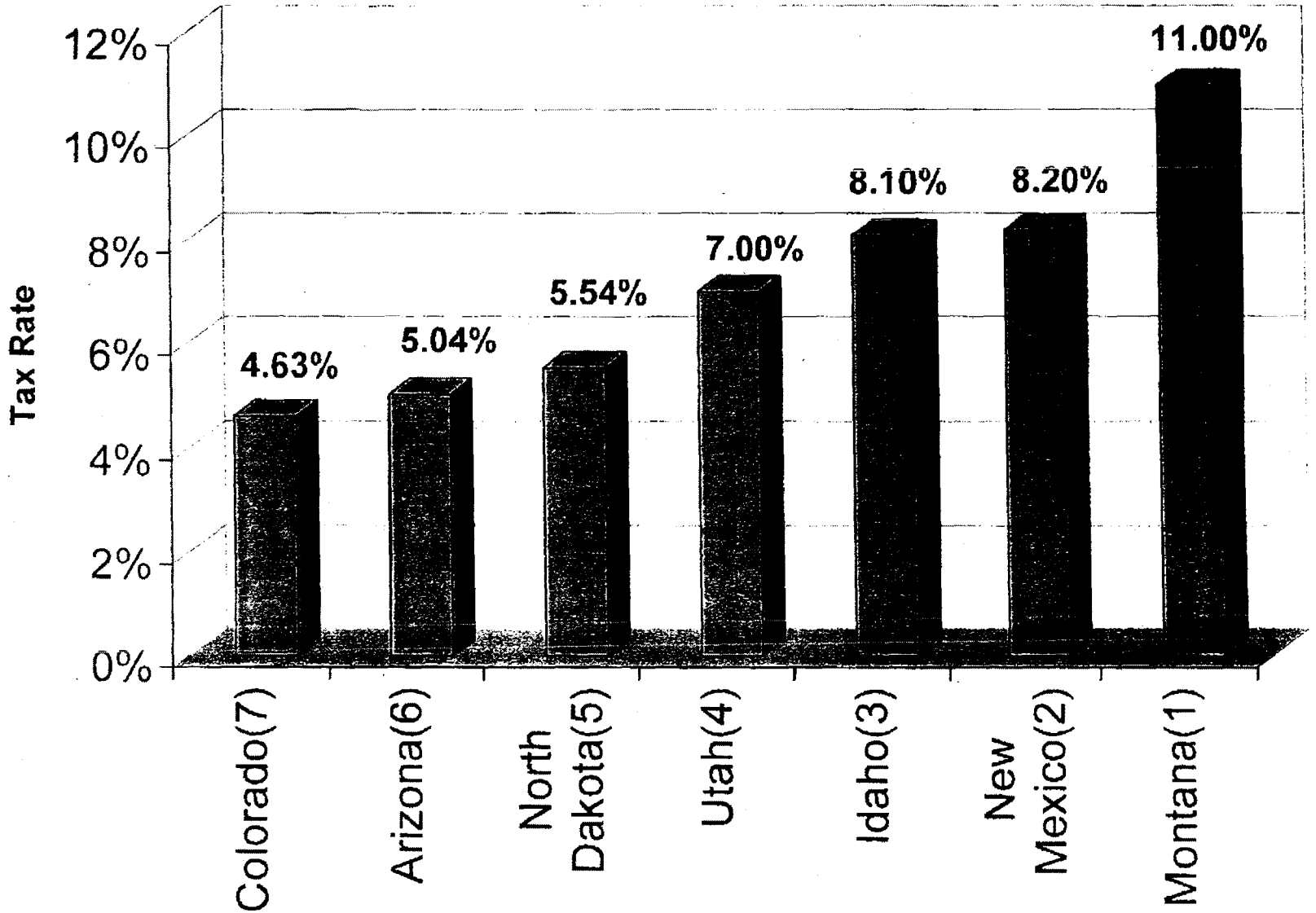
We are in a very competitive environment. Seven states no longer have a state income tax. Five of those states (Wyoming, Washington, Nevada, South Dakota and Alaska) compete with us for jobs and wealthy residents which pay more in taxes than they consume. The remaining two states (Florida and Texas) are among the fastest growing states in the U.S. I am not suggesting that we eliminate Montana's income tax, but we must lower the rates so that we are at least in the middle of pack. Our capital gains tax rate is the highest in the nation. We cannot create high paying jobs here without attracting the kind of investment capital that is willing to take the risk and the commensurate return that is not overly burdened by high capital gains taxes. We now have a serious ongoing capital gains problem in our state. As we learned from testimony provided to our Income Tax Advisory Council, many accountants and tax attorneys are advising their Montana clients to consider an out of state residency if their capital gains tax liability exceeds $25,000 to $50,000. If these clients take that advice, Montana loses three times. We lose the capital gains tax revenue, we lose the resident and we lose the potential of the reinvestment proceeds being put back in Montana's economy.

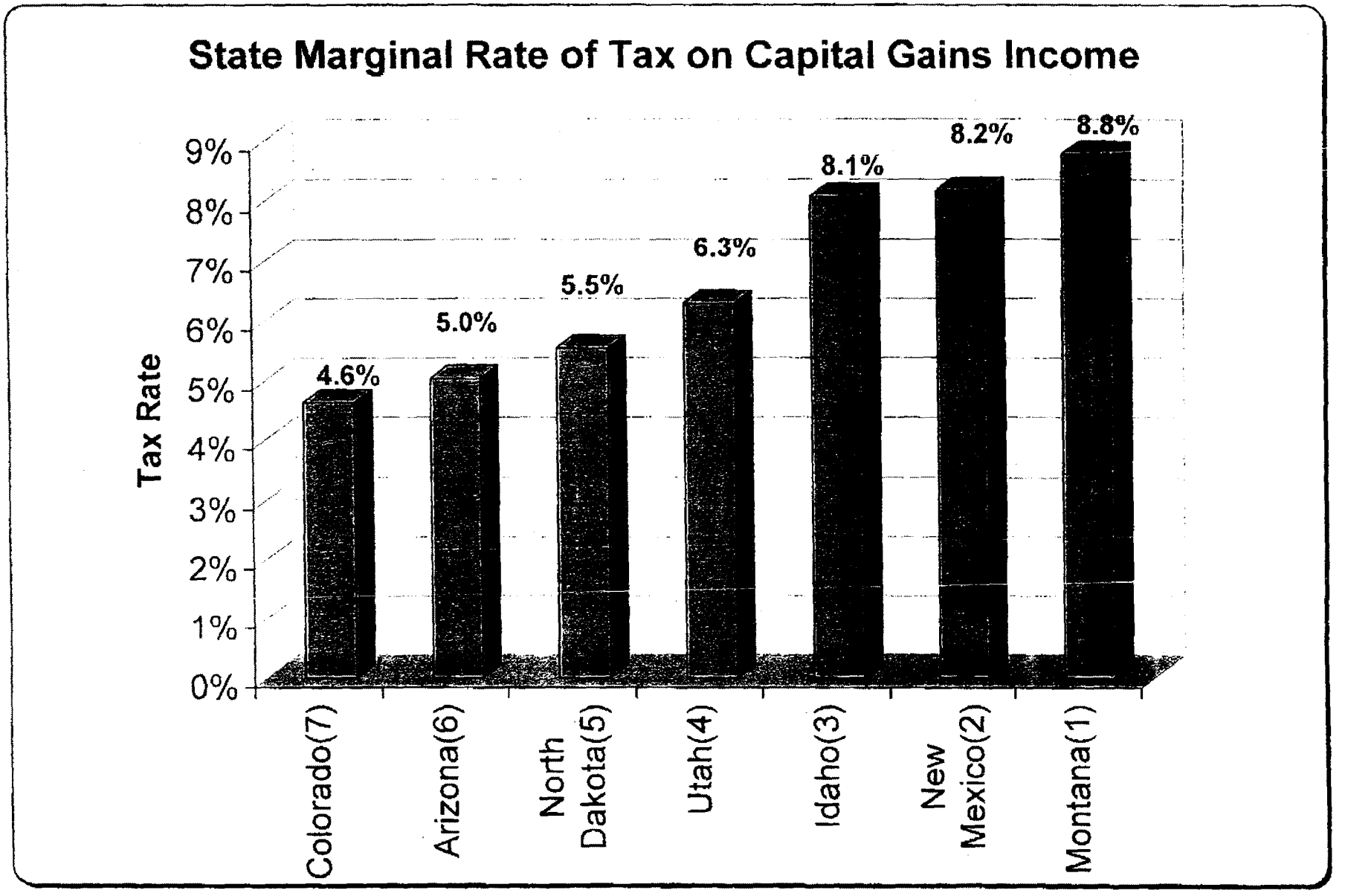
I do have a few handouts. I apologize if you have seen these before but I believe they are important for making the case for this legislation. The first chart shows our income tax rates compared to states like us. Please remember that Wyoming, Washington, Nevada and South Dakota have no income tax so they are not on this chart. The second chart show what the effective capital gains tax rate is for those states. Again Montana is the highest and again Wyoming, Washington, Nevada and South Dakota have zero capital gains tax.

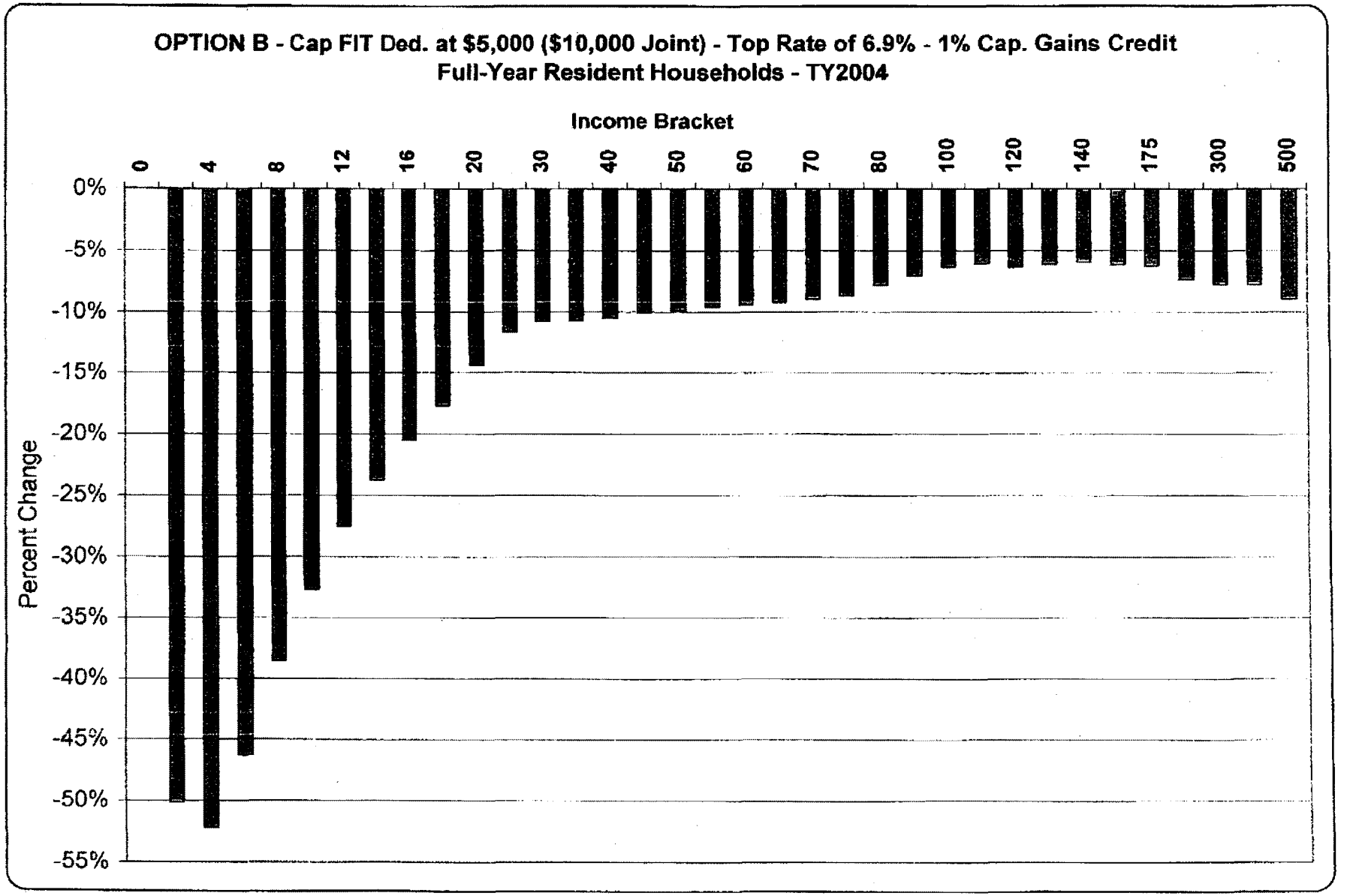
The third chart shows the average percent reduction for this tax proposal by tax bracket. Note that the lower tax brackets experience income tax reductions of 50% to 15%. While the higher tax brackets generally experience reductions of 10% to 6%. The fourth chart is a good indicator of our fair and progressive income tax system. That is the good news. The bad news is that the top 10% of our taxpayers pay over 50% of our income tax. These are the people who have mobility, knowledge and tax advisors that may recommend they establish an out of state residency if their Montana income tax burden becomes too onerous.

The fifth chart is a good comparison of how our present taxes on tourist type items compare to our sister states. Note, the average tourist visiting Montana only pays state taxes of about $49.00 compared to an average of $181.00 for the other nine states. Under this plan which assumes a 4% tax the Montana amount would increase from $49.00 to about $137.00, still well below the average of $181.00. This is a big number for the state and works out to about $55,000,000.00 per year. We believe this is the best way to fund the income tax reduction and still leave us competitive with our neighboring states in our tourism industry.

Chart 1
Highest Statutory Income Tax Rate




State Marginal Rate of Tax on Capital Gains Income
Tax Rate
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
4.6%
5.0%
5.5%
6.3%
8.1%
8.2%
8.8%
Colorado(7)
Arizona(6)
North Dakota(5)
Utah(4)
Idaho(3)
New Mexico(2)
Montana(1)


OPTION B - Cap FIT Ded. at $5,000 ($10,000 Joint) - Top Rate of 6.9% - 1% Cap. Gains Credit
Full-Year Resident Households - TY2004
Income Bracket
0
4
8
12
16
20
30
40
50
60
70
80
100
120
140
175
300
500
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
-45%
-50%
-55%
Percent Change

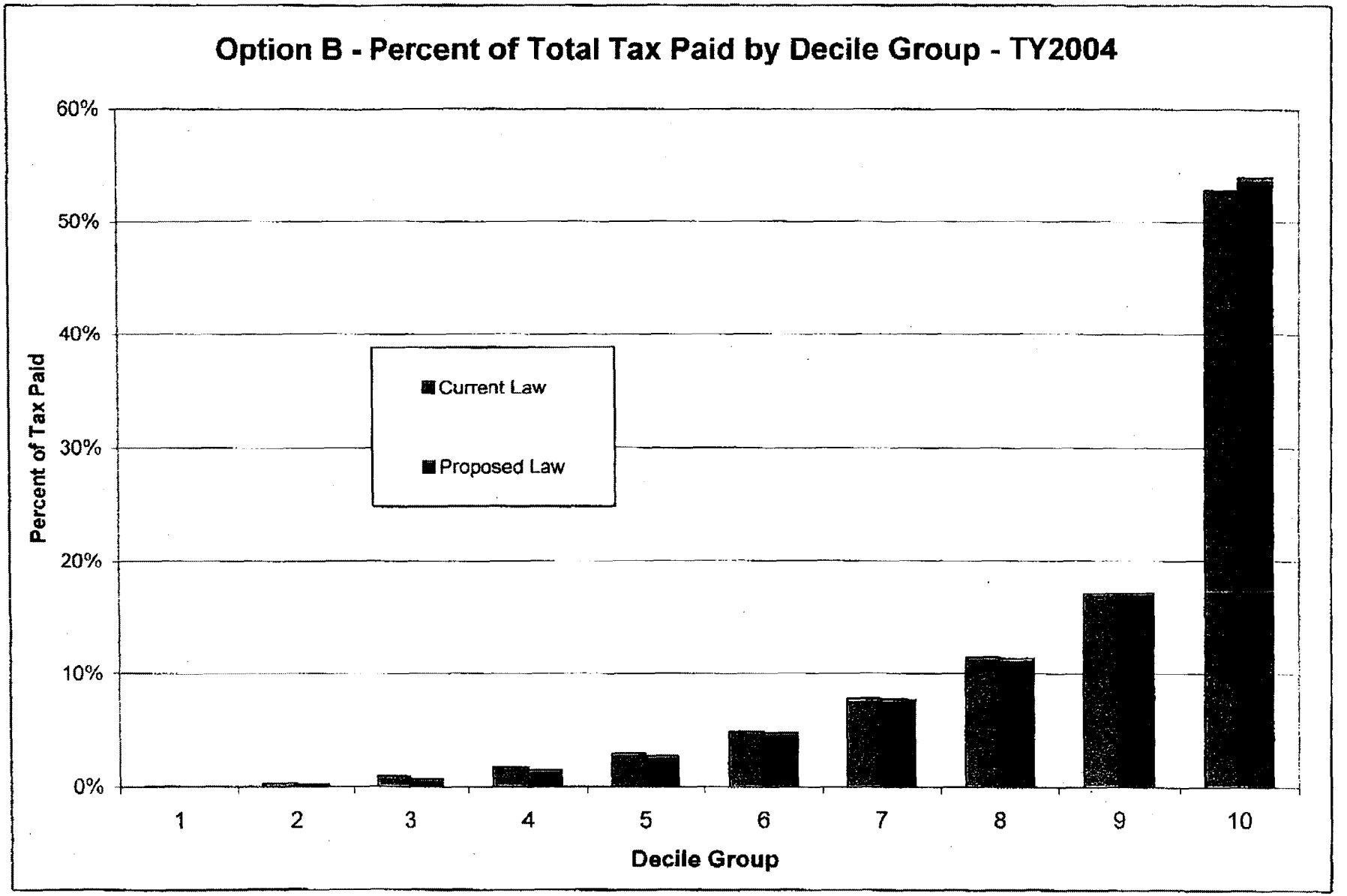

Option B - Percent of Total Tax Paid by Decile Group - TY2004
60%
50%
40%
30%
20%
10%
0%
Percent of Tax Paid
Current Law
Proposed Law
1
2
3
4
5
6
7
8
9
10
Decile Group

Table 6
Total State and Local Taxes

State	Rental Car	Gas Tax	Lodging	General Purchases	Restaurant Meals	Total Tax
Utah	$45.36	$13.62	$82.08	$46.20	$53.20	$240.46
Nevada	$34.91	$12.79	$78.00	$50.75	$50.75	$227.20
Arizona	$36.15	$10.01	$44.50	$58.10	$58.10	$206.85
Colorado	$29.00	$12.23	$34.56	$50.40	$53.90	$180.09
South Dakota	$41.98	$12.23	$36.80	$45.50	$42.00	$178.51
North Dakota	$18.80	$11.68	$38.40	$42.00	$56.00	$166.88
New Mexico	$20.14	$9.45	$48.48	$42.70	$42.70	$163.47
Idaho	$15.69	$13.90	$40.00	$35.00	$35.00	$139.59
Montana - 4% tax	**$27.20**	**$15.01**	**$38.40**	**$28.00**	**$28.00**	**$136.61**
Wyoming	$26.55	$7.23	$28.80	$35.00	$35.00	$132.58
Montana - current	$15.00	$15.01	$19.20	-	-	$49.21
Average w/o Montana	**$29.84**	**$11.46**	**$47.96**	**$45.07**	**$47.41**	**$181.74**
Percent of Total w/o Montana	16.4%	6.3%	26.4%	24.8%	26.1%	100.0%

MONTANA STATE SENATE

SENATE TAXATION
DATE Feb 18, 2003
EXHIBIT NO. 17

+++++ WITNESS STATEMENT +++++ BILL NO. SB 407

NAME RICHARD T. (TOM) HARWOOD
ADDRESS PO BOX 62, 274 GREENHILL SCHOOL ROAD EAST GALATA MT 59444

HOME PHONE: 432-2778 WORK PHONE: 432-3795

REPRESENTING SELF email (all small) AXGRINDERTH@NETSCAPE.NET

APPEARING ON WHICH PROPOSAL ? SB ~~329~~ 407

DO YOU: SUPPORT _____ OPPOSE ~~X~~ AMEND X

COMMENTS:

Taxes should be simple and understandable = KISS
I AM ABSOLUTELY OPPOSED to the INDIVIDUAL INCOME TAX
GENERAL REVENUE FOR OPERATION OF STATE GOVERNMENT
SHOULD COME FROM A GENERAL SALES TAX on ALL CONSUMPTION
OF GOODS & SERVICES. Taxes SHOULD BE COLLECTED AT THE
CASH REGISTER BECAUSE THAT IS THE ONLY POINT
WHERE EVERYONE IS EQUAL, YOUNG or OLD, RICH or POOR
AND ANY COLOR, RELIGION, OPINION or CITIZENSHIP

STATE OF MONTANA TO PASS RESOLUTION TO REPEAL FED. 16th amd.

IF WE MUST HAVE AN INDIVIDUAL INCOME TAX then
REPEAL all CURRENT RULES collect taxes at cash register
and require anyone who wants to deduct State income taxes to file a tax return

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

SENATE
TAXATION COMMITTEE
ROLL CALL

DATE FEBRUARY 18, 2003

MEMBER	ASSIGNMENT	PRESENT	EXCUSED	ABSENT
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member	✓		
Sen. Jim Elliott	Member	✓		
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member	✓		
Sen. Walt McNutt	Member	✓		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member	✓		
Sen. Bob Story	Vice Chair	✓		

DATE FEB 18, 2003

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: SB 379
SB 407

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
Rita Windom	293-7781	Lincoln Co.	407	✓	X
Ronda Carpenter	899-5659	MT Coin Machine Operators	407	✓	
Ronda Carpenter	899-5659	Great Falls Area Chamber of Commerce	407	✓	
Steve Turkiewicz	442-1233	Mt. Auto Dealers Assn	407	✓	
JERROME ANDERSON	449-3118	BNCORP ACQUISITION CO.	407	✓	
GAIL Abercrombie	442-7582	MT Petroleum Assn		✓	
Rich & Miller	449-2481	Gaming Industry Assoc	407	✓	
Steve Yenkel	443-1674	Key Decisions	407	✓	
Matt Bara	442-3280	MIKA	407	✓	
Tom Figarelle	788-1776	Forward MT	407	✓	
GERALD McCONNELL	626.4646	JORE CORPORATION	407	✓	
CANDACE PAYNE	442-7450	MT. Rental Car Assn.	407	✓	
WEBB BROWN	2-2405	MONTANA CHAMBER	407	✓	
Bill Stevens	9-6354	MFDA	407	✓	
Riley Johnson	443-3797	NFIB	407	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE FEB 18, 2003

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: SB 379

SB 407

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
Elizabeth C. Harris	257-7711	Jobs Now, FCEDA	407	✓	
Jon Marchi	443-5470	MT. Ambassadors, etc	407	X	
Daniel Watson	356-2251	MT. Assoc. Counties	407	X	
Jake Cummins	587.3153	MT Farm Bureau	407	✓	
Dennis Iverson	443-1300	Mont. Contractors Assn	407	✓	
Mary Whittinghill	442-2130	Montana Taxpayers	407	✓	
Rick Hays	441-7700	Qwest	407	✓	
Turner Askew	862-6336	Turner Askew & Assoc	407		
Timothy J. Bartz	442-1040	Anderson Zur Muehlen & Co.	407	✓	
John Cadby	443-4121	1st Interstate Bank / Montana Bankers	407	✓	
Keith Colbo	443-1673	MT Indep. Bankers	407	✓	
Alicia Brackshaw	587-3113	Gallatin Development Corp	407	✓	
John Lawton	455-8450	City of Great Falls	407		

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE FEB 18, 2003

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: SB 379
SB 407

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
Vernor Deutsch	442-7379	MSCA	407		X
RICHARD T HARWOOD	432-2778	SELF	379/407		X
Rick Reisig	727-0888	Hamilton Mis Pobbl & Company	407	X	
Jack VAN Cleve	587-4404	Mont. Ranch Vacation Assoc.	407		X
DAVID JOHNSON	4421040	MT SOCIETY OF CPAs	407	X	
JOHN KIRBY	932 4442	JOHN KIRBY Assoc	407		X
Jim Mockler	442-6223	MT Coal Council	407	~	
Carl Kochman	454-8500	MICA	407	~	
John Bloomquist	3-2211	Mt. Stockgrowers	407	X	
ARchie NuNN	495-0812	MSCA	407		X
Jeppie Daigle	933-8410	self	407		X
Jack Henderson	4113 5580	self	407		X
Bud Hanser	646-7475	Self	407		

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE 2-18-03

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 407 SB 379

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
Carol Schweitzer	443-8514	Bozeman & Kalispell Chambers	407	✓	
Greg Gianforte	522-4212	RightNow	407	✓	
Governor Martz	444-3111		407	✓	
Charles Brooks	698-2380	Billings Chamber	407	✓	
Haley Beaudry	560-5404	CFAC	407	✓	
Pat Keim	447-2301	BNSF	407	✓	
Cory Swanson	449-3118	Plum Creek Timber	407	✓	
Alec Hansen	442 8768	Cities	407	✓	
Peggy Trenk	443-4032	MT. Assoc. of Realtors	407	✓	
Bobby Stang	442-6611	MMCA	407	✓	
Leo Berry	3-6820	Ass of Ret. Retired Public Employees	407	✓	
Betty Lund	375-6203	Ravalli County	407	✓	
MARY C. ALLEN	443-7531	CENEX HARVEST STATES	407	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

DATE FEB 18, 2003

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: SB 379
SB 407

PLEASE PRINT

NAME	PHONE	REPRESENTING	BILL #	SUPPORT	OPPOSE
GENE FENDERSON	—	PLC	407		✓
Jean Johnson		Mont. Outfitters and Guides Assoc	407	INFO	
Joe MAZUREK	449-4165	Semi Tool	379		✓
Pam Langley		Mont Agri Bus. Assc	407	✓	
FRANK COTE	443-9070	HIAA	379		✓
MIKE SCHOLZ	406 995-4191	MONT. INDEPENDENT AGT	407	✓	
GENE FENDERSON	—	PLC	379	✓	
Kurt Alme	x2962	DOR	407		
MARY ALLEN	443-7531	Mt. Association Insurance & Financial Advisors	379		✓

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

SUB COMMITTEE ON TAXATION - SB 407

Call to Order: By **CHAIRMAN MIKE TAYLOR**, on March 10, 2003 at 11:15 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:
Sen. Mike Taylor, Chairman (R)
Sen. Jon Ellingson (D)
Sen. Walter McNutt (R)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Others Present: Judy Paynter, Dept. of Revenue
Dan Dodds, Dept. of Revenue
Terry Johnson, Legislative Fiscal Division
Larry Finch, Dept. of Revenue

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Discussion On: SB 407

11:20 **Judy Paynter** handed out **EXHIBIT(1)** SB 407 Tourist Tax Bill - Section by Section Description and **EXHIBIT(2)** SB 407 Revenue and reviewed the exhibits.

The committee discussed the increase of tax on rental cars and accommodations noting those items would target out-of-state visitors effectively. The question arose on the percentage that Montanan's would pay on prepared food and drink. **Dan Dodds**, Department of Revenue, responded to the committee's questions.

The committee discussed taxes on prepared food and drink; food in vending machines; alcoholic beverages sold by the drink; accommodations and campgrounds; base rental charge for rental vehicles; rental or lease of sporting goods, guided recreation and sightseeing; admissions (museums, plays etc.); and recreation fees.

They then discussed capital gain rates; cigarette taxes; the big box tax and a estate transfer tax on second homes. They continued by discussing the gaming revenue. The committee then discussed the cigarette tax proposals at length.

Larry Finch, Department of Revenue, responded to questions from the committee regarding Montana's capital gains rate. **EXHIBIT(3)**

SEN. JON ELLINGSON stated there were three major concerns in the Democrat Caucus; 1)Executive level budget funded, 2) Sufficient money for DPHHS, and 3) K-12 funding level not passed to local taxpayers.

Judy Paynter and **Larry Finch** responded to questions from the committee regarding all the proposals previously discussed. **EXHIBIT(4)**

12:16pm **Larry Finch** then reviewed **EXHIBIT(5)** Martz Tax Reform Proposal and explained the effects of the proposals.

The committee requested additional information regarding the
1 Gambling Tax Revenue
2 Big Box Bill # at $20M
3 Residential Real Estate Transfer tax
4 Cigarette tax we now have

The committee will meet again after the Senate Taxation meeting on Tuesday.

ADJOURNMENT

Adjournment: 12:36 P.M.

SEN. MIKE TAYLOR, Chairman

SHIRLEY HERRIN, Secretary

MT/SH

SENATE TAXATION
DATE Mar 10, 2003
EXHIBIT NO. 1
BILL NO. Sub Comm SB407

SB 407 - TOURIST TAX BILL
SECTION BY SECTION DESCRIPTION

1. Creates the "Montana Economic Development Tax Act"

2. Definitions

3. Imposes on the purchaser a 4% sales and use tax on limited goods and services:
   (a) prepared food;
   (b) food sold through vending machines;
   (c) alcoholic beverages sold by the drink;
   (d) accommodations and campgrounds;
   (e) the base rental charge for rental vehicles;
   (f) rental or lease of sporting goods;
   (g) guided recreation and sightseeing;
   (h) admissions;
   (i) camp tuition; and
   (j) recreation fees.

4. Creates a presumption that items are taxable.

5. Requires seller to separately state the sales tax on a receipt and to remit the tax to the Department.

6. Makes the user of property in Montana liable for use tax.

7. Requires seller to collect sales tax from purchaser and remit to the Department. Requires persons selling taxable goods and services to obtain a seller's permit. Makes seller personally liable for the tax. Requires a seller to identify its agents and places of business.

8. Provides for a nontaxable transaction certificate. Requires the certificate to be in the possession of the seller prior to a nontaxable transaction.

9. Establishes the form of the nontaxable transaction certificate.

10. Exempts the United States from the sales and use tax.

11. Exempts isolated or occasional sales from the sales and use tax.

111

12. Makes nontaxable the sale of prepared food as part of a residential living arrangement and sale of prepared food by the state .

13. Makes nontaxable the sale of property for resale.

14. Makes nontaxable the sale of services for resale.

15. Makes nontaxable a lease for subsequent lease.

16. Makes nontaxable as a use tax the value of leased property used by a person for subsequent lease.

17. Makes nontaxable sales by a 501(c)(3).

18. Provides a credit for sales or use tax paid outside the State for property brought into Montana

19. Requires a seller's permit for persons selling taxable goods and services. Requires Department to issue a numbered permit for each location where taxable transactions occur.

20. Establishes application process for seller's permit. Permits one application for multiple locations of sales. Vending machine operators are considered to have only one place of business.

21. Gives Department authority to revoke or suspend a seller's permit. Requires disputes to proceed through the Department's office of dispute resolution and then to STAB. Permits the Department to require security of a seller who reapplies after having a license revoked.

22. Makes sales taxable if a nontaxable transaction certificate is improperly used. Makes each improper transaction subject to a $100 fine.

23. Provides that if nontaxable goods are commingled with taxable goods, sales are considered to be from the nontaxable goods first, and the taxable goods second.

24. Provides liability for taxes are not extinguished until paid to the Department. Provides that a retailer who does not maintain an office of place of business in

Montana is still liable for collection of sales tax. Requires that a principal have a seller's permit before an agent can take orders in this state. Imposes a $100 fine for violations.

25. Permits sellers to request permission to report on an accrual basis.

26. Requires quarterly returns and payment of taxes, except for seasonal sellers. Requires sellers to maintain records. Authorizes the Department to examine books and records of sellers and compel persons to appear and to produce records. Provides that person with less than $10 in tax collections need not report or file.

27. Provides for a credit for bad debts.

28. Permits a vendor who timely files a return to receive a vendor's credit of 5% up to a maximum credit of $1,000 a quarter.

29. Permits the Department to require security from a seller. Permits sale of property used as security for payment of taxes. Permits the Department to require a bond. Permits the Department to require officers, directors or shareholders of a corporation to personally guaranty payment of sales tax.

30. Provides the Department with audit authority. Requires payment of underpaid taxes within 30 days. Provides dispute resolution process. Requires DOR to credit an account for overpayments.

31. Provides for uniform penalties and interest for failure to file return or pay taxes.

32. Grants collection authority for delinquent taxes to DOR. Permits the DOR to file warrants for distraint. Permits the DOR to offset delinquent taxes from other payments due the taxpayer.

33. Provides for uniform interest on delinquent taxes.

34. Establishes a 5 year statute of limitations for assessing taxes, except for fraudulent returns.

35. Establishes a 5 year statute of limitations for refunds or credits. Requires interest on refunds or credits, unless claim is paid within 6 months of demand.

36. Grants DOR rule-making authority.

37. Permits revocation of corporate license for failure to pay taxes. Provides for a dispute resolution process.

38. Provides that taxes are due and payable when a business is sold or quits doing business. Provides that a successor is liable for unpaid taxes.

39. Provides that payment of taxes is a personal debt of the seller.

40. Provides that information pertaining to the sales and use tax is confidential. Permits DOR to provide information to other state's revenue departments. Permits DOR to contract for administration of the tax and permits the vendor access to information. Permits the Legislature to have access to the information.

41. Provides that tax monies are to be deposited in the general fund.

42. Provides for a 1% net capital gains credit, not to exceed a taxpayer's income tax liability.

43. Updates the amount of money a candidate for political office may receive from political committees.

44. Clarifies what consumer price index is used in the individual income tax statutes.

45. Amends the tax tables.

(a) for tax year 2005 the following rates:

(i) on the first $2,800 of taxable income or any part of that income, 1%;

(ii) on the next $1,400 of taxable income or any part of that income, 2%;

(iii) on the next $2,400 of taxable income or any part of that income, 3%;

(iv) on the next $2,600 of taxable income or any part of that income, 4%;

(v) on the next $3,200 of taxable income or any part of that income, 5%;

(vi) on the next $3,000 of taxable income or any part of that income, 6%;

(vi) on any taxable income in excess of $15,600 or any part of that income, 6.9%.

(b) for tax years beginning after December 31, 2005, as adjusted under subsection (2) at the following rates:

(i) on the first $3,400 of taxable income or any part of that income, 1%;

(ii) on the next $2,100 of taxable income or any part of that income, 2%;

(iii) on the next $2,400 of taxable income or any part of that income, 3%;

(iv) on the next $3,000 of taxable income or any part of that income, 4%;

(v) on the next $2,300 of taxable income or any part of that income, 5%;

(vi) on the next $2,300 of taxable income or any part of that income, 6%;

(viii) on any taxable income in excess of $15,500 or any part of that income, 6.9%.

46. Updates the personal exemption rate from $800 to $1,950

47. Limits the federal income tax deduction to $5,000 for each taxpayer filing singly, head of household, or

married filing separately or $10,000 if married and filing jointly.

48. Updates the minimum standard deduction to $1,620 and the maximum standard deduction to $3,650.

49. Updates the minimum gross income threshold for filing a return to $3,650 for single filers and $7,300 for joint filers.

50. Codifies the act in Title 15.

51. Saving Clause.

52. Severability Clause.

53. Provides for a general effective date of January 1, 2005.

SENATE TAXATION
DATE MAR 10 2003
EXHIBIT NO. 2
BILL NO Sub Comm SB407

SB407 Revenue

Taxed Items	Taxable Sales ($ million) CY 2005	CY 2006
Prepared Food	$ 992.056	$ 1,022.809
Food Sold Through Vending Machines	$ 6.157	$ 6.347
Alcoholic Beverages Sold by the Drink	$ 224.291	$ 231.244
Accommodations and Campgrounds	$ 334.428	$ 344.795
Rental Vehicles	$ 63.218	$ 65.178
Rrental or Lease of Sporting Goods	$ 8.038	$ 8.288
Guided Recreation and Sightseeing	$ 73.815	$ 76.104
Admissions	$ 28.101	$ 28.972
Camp Tuition	$ 10.680	$ 11.011
Recreation Fees	$ 42.028	$ 43.331
Calendar Year Taxable Sales	$ 1,782.812	$ 1,838.079
x Tax Rate	4%	4%
= Tax Liability	$ 71.312	$ 73.523

	FY 2004	FY 2005
Fiscal Year Tax Liability	$ 35.656	$ 72.418
- Noncompliance	$ 1.783	$ 3.621
- Vendor Allowance	$ 1.487	$ 3.014
= Net Fiscal Year Revenue	$ 32.386	$ 65.783

H:\DO_GEN\TPR - NEW\Projects\Martz Tax Reform - 2003 Session Work\[TouristTaxRevenue021203.xls]Sheet2

SENATE TAXATION
DATE MAR 10, 2003
EXHIBIT NO. 3
BILL NO. SB 407

Change in Combined Federal/State Marginal Individual Income Tax Rates On Ordinary and Capital Gains Income - TY2006

A. Marginal Rate on Ordinary Income - Options A and B

	Federal Marginal Rate on Ordinary Income			
	25%	28%	33%	35%
Current Law (11%)	6.4%	5.9%	5.1%	4.8%
Proposed Law (6.9%)	5.2%	5.0%	4.6%	4.5%
Change	-1.2%	-0.9%	-0.5%	-0.3%
% Change	**-18.6%**	**-15.5%**	**-9.8%**	**-7.0%**

B. Marginal Rate on Capital Gains Income (20% Federal Rate) - Option A

	Federal Marginal Rate on Ordinary Income			
	25%	28%	33%	35%
Current Law (11%)	6.8%	6.5%	6.1%	6.0%
Proposed Law (6.9%)	5.2%	5.0%	4.6%	4.5%
Change	-1.6%	-1.6%	-1.5%	-1.5%
% Change	**-23.7%**	**-24.0%**	**-24.5%**	**-24.5%**

C. Marginal Rate on Capital Gains Income (20% Federal Rate) - Option B

	Federal Marginal Rate on Ordinary Income			
	25%	28%	33%	35%
Current Law (11%)	6.8%	6.5%	6.1%	6.0%
Proposed Law (5.9%)	4.4%	4.3%	4.0%	3.8%
Change	-2.4%	-2.3%	-2.2%	-2.1%
% Change	**-34.8%**	**-35.0%**	**-35.5%**	**-35.5%**

D. Marginal Rate on Capital Gains Income (18% Federal Rate) - Option A

	Federal Marginal Rate on Ordinary Income			
	25%	28%	33%	35%
Current Law (11%)	7.0%	6.7%	6.3%	6.1%
Proposed Law (6.9%)	5.2%	5.0%	4.6%	4.5%
Change	-1.8%	-1.7%	-1.7%	-1.6%
% Change	**-25.6%**	**-25.8%**	**-26.3%**	**-26.4%**

E. Marginal Rate on Capital Gains Income (18% Federal Rate) - Option B

	Federal Marginal Rate on Ordinary Income			
	25%	28%	33%	35%
Current Law (11%)	7.0%	6.7%	6.3%	6.1%
Proposed Law (5.9%)	4.4%	4.3%	4.0%	3.8%
Change	-2.5%	-2.5%	-2.3%	-2.3%
% Change	**-36.4%**	**-36.6%**	**-37.0%**	**-37.0%**

TAX YEAR 2006

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates - Ordinary Income
Taxpayers Paying 11% State Rate, at Selected Federal Marginal Tax Rates - TY2006 and After*

			Ordinary Income Federal Marginal Tax Rate							
			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
Montana	**11.00%**	**1**	**6.36%**	**3**	**5.88%**	**3**	**5.12%**	**4**	**4.83%**	**5**
California	9.30%	2	6.98%	1	6.70%	1	6.23%	1	6.05%	1
Oregon	9.00%	3	6.75%	2	6.48%	2	6.03%	2	5.85%	2
New Mexico	8.20%	4	5.68%	5	5.46%	5	5.08%	5	4.93%	4
Idaho	8.10%	5	6.08%	4	5.83%	4	5.43%	3	5.27%	3
Utah	7.00%	6	4.63%	6	4.38%	6	3.96%	6	3.80%	6
North Dakota	5.54%	7	3.94%	7	3.78%	7	3.52%	7	3.41%	7
Arizona	5.04%	8	3.60%	8	3.45%	8	3.21%	8	3.12%	8
Colorado	4.63%	9	3.47%	9	3.33%	9	3.10%	9	3.01%	9

*Does not take federal phaseout of itemized deductions into account.

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates - Ordinary Income
Montana with Top Rate of 6.9% and Federal Deductibility Capped at $5,000/$10,000
at Selected Federal Marginal Tax Rates - TY2006 and After

			Ordinary Income Federal Marginal Tax Rate							
			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
California	9.30%	1	6.98%	1	6.70%	1	6.23%	1	6.05%	1
Oregon	9.00%	2	6.75%	2	6.48%	2	6.03%	2	5.85%	2
New Mexico	8.20%	3	5.68%	4	5.46%	4	5.08%	4	4.93%	4
Idaho	8.10%	4	6.08%	3	5.83%	3	5.43%	3	5.27%	3
Utah	7.00%	5	4.63%	6	4.38%	6	3.96%	6	3.80%	6
Montana	**6.90%**	**6**	**5.18%**	**5**	**4.97%**	**5**	**4.62%**	**5**	**4.49%**	**5**
North Dakota	5.54%	7	3.94%	7	3.78%	7	3.52%	7	3.41%	7
Arizona	5.04%	8	3.60%	8	3.45%	8	3.21%	8	3.12%	8
Colorado	4.63%	9	3.47%	9	3.33%	9	3.10%	9	3.01%	9

*Does not take federal phaseout of itemized deductions into account.

TAX YEAR 2006

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 20%
Taxpayers Paying 11% State Rate, at Selected Federal Marginal Tax Rates - TY2006 and After*

			Ordinary Income Federal Marginal Tax Rate							
			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
Montana	**11.00%**	**1**	**6.79%**	**2**	**6.54%**	**2**	**6.12%**	**2**	**5.95%**	**2**
California	9.30%	2	6.98%	1	6.70%	1	6.23%	1	6.05%	1
Oregon	9.00%	3	6.75%	3	6.48%	3	6.03%	3	5.85%	3
New Mexico	8.20%	4	5.68%	5	5.46%	5	5.08%	5	4.93%	5
Idaho	8.10%	5	6.06%	4	5.83%	4	5.43%	4	5.27%	4
Utah	7.00%	6	4.77%	6	4.58%	6	4.27%	6	4.15%	6
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 20%
Montana with Top Rate of 6.9% and Federal Deductibility Capped at $5,000/$10,000
at Selected Federal Marginal Tax Rates - TY2006 and After

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New Mexico	8.20%	3	5.68%	4	5.46%	4	5.08%	4	4.93%	4
Idaho	8.10%	4	6.08%	3	5.83%	3	5.43%	3	5.27%	3
Utah	7.00%	5	4.77%	6	4.58%	6	4.27%	6	4.15%	6
Montana	**6.90%**	**6**	**5.18%**	**5**	**4.97%**	**5**	**4.62%**	**5**	**4.49%**	**5**
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 20%
Montana with Effective Top Rate of 5.9% and Federal Deductibility Capped at $5,000/$10,000
at Selected Federal Marginal Tax Rates - TY2006 and After

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State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
California	9.30%	1	6.98%	1	6.70%	1	6.23%	1	6.05%	1
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New Mexico	8.20%	3	5.68%	4	5.46%	4	5.08%	4	4.93%	4
Idaho	8.10%	4	6.08%	3	5.83%	3	5.43%	3	5.27%	3
Utah	7.00%	5	4.77%	5	4.58%	5	4.27%	5	4.15%	5
Montana	**5.90%**	**6**	**4.43%**	**6**	**4.25%**	**6**	**3.95%**	**6**	**3.84%**	**6**
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

includes 1% credit
down to 4.9

TAX YEAR 2006

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 18%
Taxpayers Paying at 11% State Rate, at Selected Federal Marginal Tax Rates - TY2006 and After*

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			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
Montana	**11.00%**	**1**	**6.96%**	**2**	**6.70%**	**1**	**6.27%**	**1**	**6.10%**	**1**
California	9.30%	2	6.98%	1	6.70%	2	6.23%	2	6.05%	2
Oregon	9.00%	3	6.75%	3	6.48%	3	6.03%	3	5.85%	3
New Mexico	8.20%	4	5.68%	5	5.46%	5	5.08%	5	4.93%	5
Idaho	8.10%	5	6.08%	4	5.83%	4	5.43%	4	5.27%	4
Utah	7.00%	6	4.82%	6	4.63%	6	4.32%	6	4.19%	6
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 18%
Montana with Top Rate of 6.9% and Federal Deductibility Capped at $5,000/$10,000
at Selected Federal Marginal Tax Rates - TY2006 and After

			Ordinary Income Federal Marginal Tax Rate							
			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
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New Mexico	8.20%	3	5.68%	4	5.46%	4	5.08%	4	4.93%	4
Idaho	8.10%	4	6.08%	3	5.83%	3	5.43%	3	5.27%	3
Utah	7.00%	5	4.82%	6	4.63%	6	4.32%	6	4.19%	6
Montana	**6.90%**	**6**	**5.18%**	**5**	**4.97%**	**5**	**4.62%**	**5**	**4.49%**	**5**
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

Relative Ranking of Taxpayer Combined Federal/State Marginal Individual Income Tax Rates
Capital Gains Income Taxed at Maximum Federal Rate of 18%
Montana with Effective Top Rate of 5.9% and Federal Deductibility Capped at $5,000/$10,000
at Selected Federal Marginal Tax Rates - TY2006 and After

			Ordinary Income Federal Marginal Tax Rate							
			25% Federal Rate		28% Federal Rate		33% Federal Rate		35% Federal Rate	
State	State Top Marginal Statutory Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank	Marginal Tax Rate	Rank
California	9.30%	1	6.98%	1	6.70%	1	6.23%	1	6.05%	1
Oregon	9.00%	2	6.75%	2	6.48%	2	6.03%	2	5.85%	2
New Mexico	8.20%	3	5.68%	4	5.46%	4	5.08%	4	4.93%	4
Idaho	8.10%	4	6.08%	3	5.83%	3	5.43%	3	5.27%	3
Utah	7.00%	5	4.82%	5	4.63%	5	4.32%	5	4.19%	5
Montana	**5.90%**	**6**	**4.43%**	**6**	**4.25%**	**6**	**3.95%**	**6**	**3.84%**	**6**
North Dakota	5.54%	7	2.76%	9	2.65%	9	2.46%	9	2.39%	9
Arizona	5.04%	8	3.60%	7	3.45%	7	3.21%	7	3.12%	7
Colorado	4.63%	9	3.47%	8	3.33%	8	3.10%	8	3.01%	8

*Does not take federal phaseout of itemized deductions into account.

Legislative Fiscal Division

Cigarette Tax Proposals

	SB 309 Bohlinger	SB 351 Cobb	SB 351 (amended) Cobb
Potential New Revenue (Millions)	$43.493	$32.578	$0.000
Proposed Rate Per Pack	$0.60	$0.48	$0.18
Tax Change Per Pack	$0.42	$0.30	$0.00
Effective Date	July 1, 2003	July 1, 2003	July 1, 2003
Wholesaler Allowance	Not Amended	Amended	Amended
Revenue Dedication/Purpose	Per Educator Entitlement University System	Social Services	Social Services
Revenue Account	General Fund	State Special Revenue	State Special Revenue

SENATE TAXATION
DATE MAR. 10, 2003
EXHIBIT NO. 4
BILL NO. SB 407

Lodging Facility Use Tax Proposals

	SB 11 Harrington	SB 353 Bohlinger
Potential New Revenue (Millions)	$23.940	$33.250
Proposed Rate	8.00%	9.00%
Tax Rate Change	4.00%	5.00%
Effective Date	July 1, 2003	July 1, 2003
Revenue Dedication/Purpose	None	State Parks & Tourism
Revenue Account	General Fund/State Special	State Special Revenue (statutorily appropriated)

Legislative Fiscal Division

Rental Car Tax Proposals

	SB 11 Harrington	SB 353 Bohlinger	HB 288 Erickson
Potential New Revenue (Millions)	$6.363	$7.909	$7.159
Proposed Rate	8.00%	9.00%	9.00%
Tax Rate Change	8.00%	9.00%	9.00%
Effective Date	July 1, 2003	July 1, 2003	July 1, 2003
Administrative Allowance	5.00%	2.00%	5.00%
Revenue Dedication/Purpose	None	Highway Rest Area Improvement	Board of Regents/Tourism
Revenue Account	General Fund	State Special Revenue	General Fund/State Special

Video Gambling Tax Proposals

	SB 289 Ellingson	SB 309 Bohlinger	HB 582 Juneau
Potential New Revenue (Millions)	$76.558	$33.250	$2.859
Proposed Rate			
Establishment having 5 or fewer machines	10.00%	15.00%	15.00%
Establishment having 6 to 10 machines	30.00%	20.00%	15.00%
Establishment having 11 to 15 machines	30.00%	25.00%	15.00%
Establishment having 16 or more machines	30.00%	30.00%	15.00%
Tax Rate Change			
Establishment having 5 or fewer machines	-5.00%	0.00%	0.00%
Establishment having 6 to 10 machines	15.00%	5.00%	0.00%
Establishment having 11 to 15 machines	15.00%	10.00%	0.00%
Establishment having 16 or more machines	15.00%	15.00%	0.00%
Proposed Maximum Number of Machines	20	20	22
Change in Maximum Number of Machine	0	0	2
Effective Date	Passage and Approval	July 1, 2003	July 1, 2003
Revenue Dedication/Purpose	None	Per Educator Entitlement University System	Alternative Education
Revenue Account	General Fund	General Fund	State Special Revenue

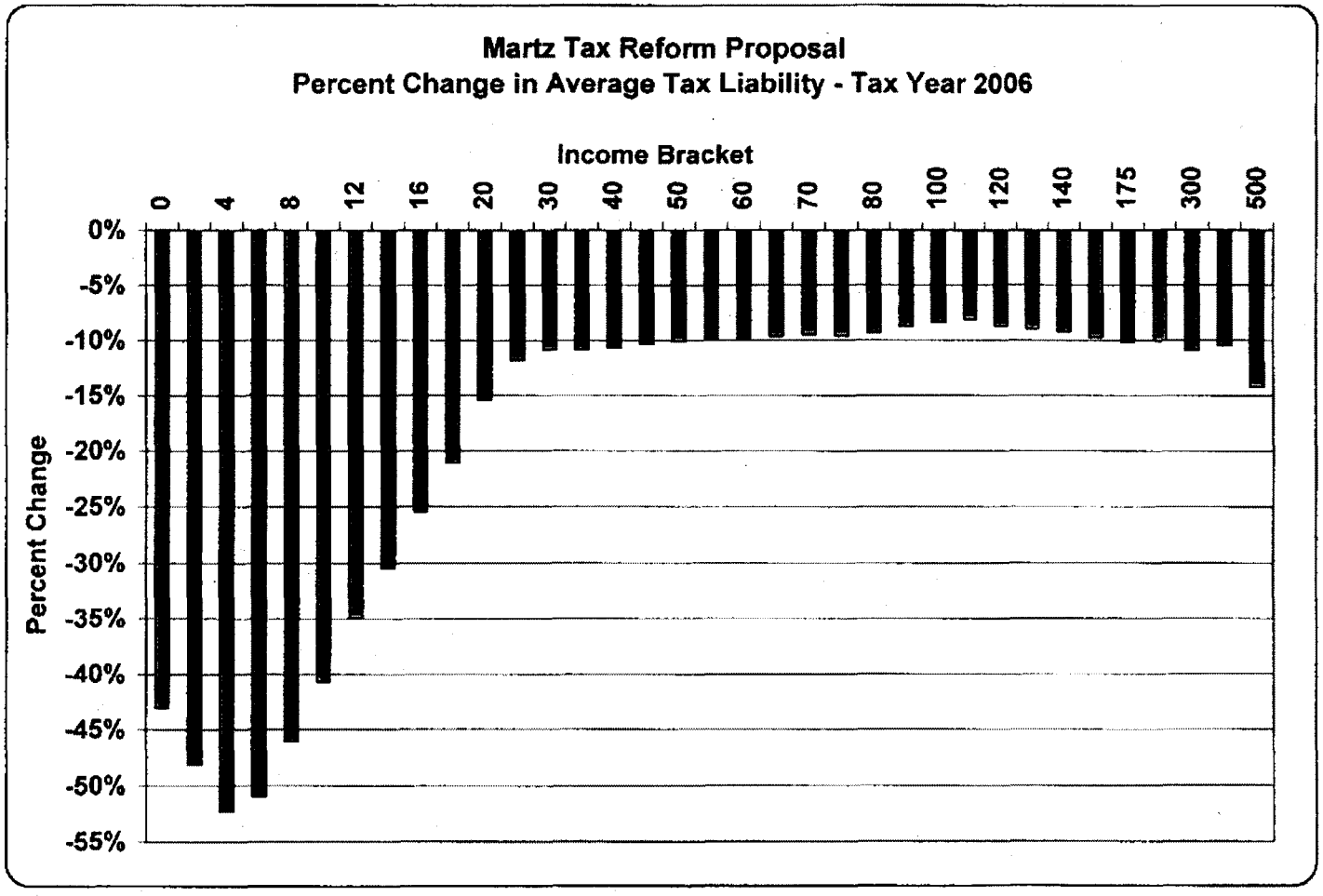
Tobacco Tax Proposals

	HB 204 Lawson	HB 355 Newman	HB 413 Erickson
Potential New Revenue (Millions)	$4.090	$11.478	$7.142
Proposed Rate	25.00%	50.00%	62.50%
Tax Rate Change	12.50%	37.50%	50.00%
New Tax for Moist Snuff (per oz)	$0.00	$0.00	$0.83
Effective Date	July 1, 2003	July 1, 2003	July 1, 2003
Wholesaler Allowance	3.00%	1.20%	1.20%
Revenue Dedication/Purpose	Health & Medicaid Initiatives	None	None
Revenue Account	General Fund/State Special	General Fund	General Fund

SENATE TAXATION
DATE MARCH 2003
EXHIBIT NO. 5
BILL NO. Sub-Comm
SB407 - 2-18-2003

Martz Tax Reform Proposal
Summary Impacts by Filertype - TY2006

	Single Filers	Head of Household	Married Joint	Married Separate	All Households
CL Tax	117,523,882	23,595,427	126,611,303	298,702,611	566,433,224
PL Tax	103,440,756	20,369,239	108,831,257	269,458,092	502,099,344
Change	(14,083,126)	(3,226,188)	(17,780,046)	(29,244,519)	(64,333,879)
No. of Hshlds.	170,816	33,199	73,258	101,176	378,449
Change in Ave. Liab.	$ (82)	$ (97)	$ (243)	$ (289)	$ (170)
Gainers	99,062	21,721	46,370	88,614	255,767
Losers	3,004	192	940	5,547	9,683
No Change	68,750	11,286	25,948	7,015	112,999
Total	170,816	33,199	73,258	101,176	378,449
No Tax - CL	37,331	7,150	19,913	2,391	66,785
No Tax - PL	38,466	7,201	20,436	3,441	69,544
Change	1,135	51	523	1,050	2,759


Martz Tax Reform Proposal
Percent Change in Average Tax Liability - Tax Year 2006
Income Bracket
0
4
8
12
16
20
30
40
50
60
70
80
100
120
140
175
300
500
Percent Change
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
-45%
-50%
-55%

Martz Tax Reform Proposal
Single Filers - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	13,454	15,171,798	4,308	2,006	(2,302)	19	0	13,435	13,413	13,417	0.1%	0.0%	0.03%	0.01%	0.00%	0.00%	0	0	(0)	0.00%
$ 2,000 - $ 3,999	17,054	51,215,482	68,094	33,790	(34,304)	23	0	17,031	10,953	11,145	0.1%	0.0%	0.13%	0.07%	0.01%	0.01%	4	2	(2)	-50.38%
$ 4,000 - $ 5,999	15,695	78,086,648	545,586	257,342	(288,244)	80	0	15,615	2,662	2,921	0.5%	0.0%	0.70%	0.33%	0.10%	0.05%	35	16	(18)	-52.83%
$ 6,000 - $ 7,999	13,654	95,212,667	1,090,191	531,847	(558,344)	6,388	0	7,266	2,319	2,494	46.8%	0.0%	1.15%	0.56%	0.19%	0.11%	80	39	(41)	-51.22%
$ 8,000 - $ 9,999	11,797	105,821,578	1,475,748	799,831	(675,916)	8,202	0	3,595	1,878	1,999	69.5%	0.0%	1.39%	0.76%	0.26%	0.16%	125	68	(57)	-45.80%
$ 10,000 - $ 11,999	10,449	114,728,223	1,859,289	1,127,450	(731,839)	7,748	3	2,698	1,527	1,620	74.2%	0.0%	1.62%	0.98%	0.33%	0.22%	178	108	(70)	-39.36%
$ 12,000 - $ 13,999	9,783	127,054,257	2,330,257	1,561,191	(769,066)	7,786	1	1,986	1,084	1,169	79.7%	0.0%	1.83%	1.23%	0.41%	0.31%	238	160	(79)	-33.00%
$ 14,000 - $ 15,999	9,113	136,538,554	2,813,009	2,011,248	(801,760)	7,620	6	1,487	786	859	83.6%	0.1%	2.06%	1.47%	0.50%	0.40%	309	221	(88)	-28.50%
$ 16,000 - $ 17,999	8,347	141,766,791	3,277,307	2,529,713	(747,594)	7,311	8	1,028	532	587	87.6%	0.1%	2.31%	1.78%	0.58%	0.50%	393	303	(90)	-22.81%
$ 18,000 - $ 19,999	7,247	137,532,593	3,540,556	2,919,797	(620,759)	6,522	11	714	403	434	90.0%	0.2%	2.57%	2.12%	0.63%	0.58%	489	403	(86)	-17.53%
$ 20,000 - $ 24,999	13,915	311,406,877	9,367,247	8,342,127	(1,025,119)	12,949	39	927	574	629	93.1%	0.3%	3.01%	2.68%	1.65%	1.66%	673	600	(74)	-10.94%
$ 25,000 - $ 29,999	10,057	275,344,556	9,649,058	8,903,440	(745,618)	9,412	100	545	335	348	93.6%	1.0%	3.50%	3.23%	1.70%	1.77%	959	885	(74)	-7.73%
$ 30,000 - $ 34,999	7,577	245,203,178	9,628,971	8,909,834	(719,137)	7,019	154	404	209	222	92.6%	2.0%	3.93%	3.63%	1.70%	1.77%	1,271	1,176	(95)	-7.47%
$ 35,000 - $ 39,999	5,572	208,350,516	8,676,465	8,002,824	(673,642)	4,972	211	389	142	151	89.2%	3.8%	4.16%	3.84%	1.53%	1.58%	1,557	1,436	(121)	-7.77%
$ 40,000 - $ 44,999	4,181	177,101,096	7,592,177	7,032,755	(559,423)	3,478	311	392	122	124	83.2%	7.4%	4.29%	3.97%	1.34%	1.40%	1,816	1,682	(134)	-7.37%
$ 45,000 - $ 49,999	3,098	146,571,533	6,453,922	6,026,583	(427,339)	2,402	356	328	84	94	77.5%	11.9%	4.40%	4.11%	1.14%	1.20%	2,083	1,945	(138)	-6.62%
$ 50,000 - $ 54,999	2,228	116,716,160	5,319,256	4,994,790	(324,466)	1,655	323	250	56	61	74.3%	14.5%	4.56%	4.28%	0.94%	0.99%	2,387	2,242	(146)	-6.10%
$ 55,000 - $ 59,999	1,529	87,747,768	4,065,120	3,829,333	(235,786)	1,085	252	192	48	47	71.0%	16.5%	4.63%	4.36%	0.72%	0.76%	2,659	2,504	(154)	-5.80%
$ 60,000 - $ 64,999	1,209	75,405,888	3,611,896	3,410,473	(201,423)	873	213	123	35	31	72.2%	17.6%	4.79%	4.52%	0.64%	0.68%	2,988	2,821	(167)	-5.58%
$ 65,000 - $ 69,999	898	60,470,911	2,899,798	2,753,332	(146,466)	620	186	92	31	30	69.0%	20.7%	4.80%	4.55%	0.51%	0.55%	3,229	3,066	(163)	-5.05%
$ 70,000 - $ 74,999	608	43,993,772	2,129,667	2,025,782	(103,885)	421	128	59	22	17	69.2%	21.1%	4.84%	4.60%	0.38%	0.40%	3,503	3,332	(171)	-4.88%
$ 75,000 - $ 79,999	504	39,037,896	1,970,401	1,858,853	(111,548)	356	108	40	9	8	70.6%	21.4%	5.05%	4.76%	0.35%	0.37%	3,910	3,688	(221)	-5.66%
$ 80,000 - $ 89,999	683	57,686,223	2,937,838	2,782,108	(155,731)	475	160	48	23	19	69.5%	23.4%	5.09%	4.82%	0.52%	0.55%	4,301	4,073	(228)	-5.30%
$ 90,000 - $ 99,999	448	42,394,323	2,188,833	2,059,191	(129,643)	312	101	35	16	14	69.6%	22.5%	5.16%	4.86%	0.39%	0.41%	4,886	4,596	(289)	-5.92%
$100,000 - $109,999	321	33,638,309	1,732,963	1,613,222	(119,740)	228	69	24	12	12	71.0%	21.5%	5.15%	4.80%	0.31%	0.32%	5,399	5,026	(373)	-6.91%
$110,000 - $119,999	207	23,839,771	1,321,383	1,195,585	(125,798)	159	39	9	3	4	76.8%	18.8%	5.54%	5.02%	0.23%	0.24%	6,383	5,776	(608)	-9.52%
$120,000 - $129,999	180	19,971,735	1,133,667	1,015,334	(118,333)	123	25	12	7	7	76.9%	15.6%	5.68%	5.08%	0.20%	0.20%	7,085	6,346	(740)	-10.44%
$130,000 - $139,999	126	17,051,872	861,349	861,533	(99,816)	101	20	5	4	1	80.2%	15.9%	5.64%	5.05%	0.17%	0.17%	7,630	6,838	(792)	-10.38%
$140,000 - $149,999	116	16,815,122	985,412	887,919	(97,492)	90	24	2	1	1	77.6%	20.7%	5.86%	5.28%	0.17%	0.18%	8,495	7,654	(840)	-9.89%
$150,000 - $174,999	210	33,916,676	2,032,907	1,780,077	(252,829)	166	39	5	3	2	79.0%	18.6%	5.99%	5.25%	0.36%	0.35%	9,681	8,477	(1,204)	-12.44%
$175,000 - $199,999	135	25,300,033	1,541,537	1,371,721	(169,816)	100	28	7	6	4	74.1%	20.7%	6.09%	5.42%	0.27%	0.27%	11,419	10,161	(1,258)	-11.02%
$200,000 - $299,999	231	55,535,639	3,577,222	3,114,690	(462,532)	184	41	6	6	3	79.7%	17.7%	6.44%	5.61%	0.63%	0.62%	15,486	13,484	(2,002)	-12.93%
$300,000 - $399,999	68	23,526,286	1,692,307	1,480,254	(212,052)	57	11	0	1	0	83.8%	16.2%	7.19%	6.29%	0.30%	0.29%	24,887	21,768	(3,118)	-12.53%
$400,000 - $499,999	53	23,558,834	1,621,877	1,445,640	(176,237)	40	13	0	2	0	75.5%	24.5%	6.88%	6.14%	0.29%	0.29%	30,601	27,276	(3,325)	-10.87%
$500,000+	89	102,193,976	7,428,266	5,969,340	(1,458,927)	76	12	1	3	2	85.4%	13.5%	7.27%	5.84%	1.31%	1.19%	83,464	67,071	(16,392)	-19.64%
TOTALS	170,816	3,265,907,539	117,523,882	103,440,756	(14,083,126)	99,062	3,004	68,750	37,331	38,466	58.0%	1.8%	3.60%	3.17%	20.75%	20.60%	688	606	(82)	-11.98%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	33,011	76,769,875	119,383	58,603	(60,780)	46	0	32,965	24,786	25,027	0.1%	0.0%	0.16%	0.08%	0.02%	0.01%	4	2	(2)	-50.91%
2 ($4,949)	29,397	183,838,102	1,855,520	902,842	(952,678)	8,144	0	21,253	5,016	5,417	27.7%	0.0%	1.01%	0.49%	0.33%	0.18%	63	31	(32)	-51.34%
3 ($8,581)	24,668	261,800,241	4,178,145	2,523,819	(1,654,326)	16,187	4	8,477	3,531	3,751	73.7%	0.0%	1.60%	0.96%	0.74%	0.50%	169	102	(67)	-39.59%
4 ($13,896)	21,684	332,683,367	7,052,950	5,162,433	(1,890,516)	18,288	13	3,383	1,813	1,984	84.3%	0.1%	2.12%	1.55%	1.25%	1.03%	325	238	(87)	-26.80%
5 ($19,422)	18,688	384,803,325	10,799,921	9,321,072	(1,478,849)	17,123	43	1,522	885	966	91.6%	0.2%	2.81%	2.42%	1.91%	1.86%	578	499	(79)	-13.69%
6 ($25,447)	15,943	437,101,619	15,344,788	14,131,032	(1,213,757)	14,918	153	874	535	565	93.6%	1.0%	3.51%	3.23%	2.71%	2.81%	962	886	(76)	-7.91%
7 ($33,994)	12,031	436,283,294	17,944,912	16,584,621	(1,360,291)	10,801	445	785	311	325	89.8%	3.7%	4.11%	3.80%	3.17%	3.30%	1,492	1,378	(113)	-7.58%
8 ($43,668)	7,773	369,113,554	16,324,687	15,232,461	(1,092,226)	6,074	874	825	221	228	78.1%	11.2%	4.42%	4.13%	2.88%	3.03%	2,100	1,960	(141)	-6.69%
9 ($58,699)	4,292	270,699,011	12,867,050	12,170,895	(696,155)	3,033	786	473	137	126	70.7%	18.3%	4.75%	4.50%	2.27%	2.42%	2,998	2,836	(162)	-5.41%
10 ($77,161)	3,329	512,815,151	31,036,527	27,352,977	(3,683,550)	2,450	686	193	96	77	73.6%	20.6%	6.05%	5.33%	5.48%	5.45%	9,323	8,217	(1,107)	-11.87%
10A ($77,161)	1,042	84,141,331	4,255,968	4,009,747	(246,220)	732	228	82	28	25	70.2%	21.9%	5.06%	4.77%	0.75%	0.80%	4,084	3,848	(236)	-5.79%
10B ($97,819)	1,028	102,395,429	5,320,352	4,984,253	(336,099)	722	237	69	33	31	70.2%	23.1%	5.20%	4.87%	0.94%	0.99%	5,175	4,848	(327)	-6.32%
10C ($120,652)	1,259	326,278,391	21,460,208	18,358,976	(3,101,231)	996	221	42	35	21	79.1%	17.6%	6.58%	5.63%	3.79%	3.66%	17,045	14,582	(2,463)	-14.45%
TOTALS	170,816	3,265,907,539	117,523,882	103,440,756	(14,083,126)	99,062	3,004	68,750	37,331	38,466	58.0%	1.8%	3.60%	3.17%	20.75%	20.60%	688	606	(82)	-11.98%

Martz Tax Reform Proposal
Married Filing Jointly Households - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	941	909,011	19,430	11,560	(7,870)	16	0	925	913	920	1.7%	0.0%	2.14%	1.27%	0.00%	0.00%	21	12	(8)	0.00%
$ 2,000 - $ 3,999	1,121	3,409,016	4,933	3,266	(1,668)	14	0	1,107	1,093	1,098	1.2%	0.0%	0.14%	0.10%	0.00%	0.00%	4	3	(1)	0.00%
$ 4,000 - $ 5,999	1,467	7,417,073	14,193	9,066	(5,126)	36	0	1,431	1,405	1,418	2.5%	0.0%	0.19%	0.12%	0.00%	0.00%	10	6	(3)	0.00%
$ 6,000 - $ 7,999	1,947	13,713,159	16,618	10,878	(5,740)	33	0	1,914	1,714	1,732	1.7%	0.0%	0.12%	0.08%	0.00%	0.00%	9	6	(3)	-34.54%
$ 8,000 - $ 9,999	2,432	21,954,000	42,410	25,861	(16,549)	82	0	2,350	1,860	1,879	3.4%	0.0%	0.19%	0.12%	0.01%	0.01%	17	11	(7)	-39.02%
$ 10,000 - $ 11,999	3,052	33,616,042	93,883	50,044	(43,839)	373	0	2,679	1,967	2,004	12.2%	0.0%	0.28%	0.15%	0.02%	0.01%	31	16	(14)	-46.70%
$ 12,000 - $ 13,999	3,253	42,378,491	203,729	117,638	(85,891)	816	0	2,437	1,683	1,731	25.1%	0.0%	0.48%	0.28%	0.04%	0.02%	63	36	(26)	-42.16%
$ 14,000 - $ 15,999	3,451	51,714,607	308,421	189,710	(118,711)	1,156	1	2,294	1,634	1,685	33.5%	0.0%	0.60%	0.37%	0.05%	0.04%	89	55	(34)	-38.49%
$ 16,000 - $ 17,999	3,401	57,843,934	432,101	283,319	(148,783)	1,436	0	1,965	1,355	1,406	42.2%	0.0%	0.75%	0.49%	0.08%	0.06%	127	83	(44)	-34.43%
$ 18,000 - $ 19,999	3,464	65,733,427	594,224	411,411	(182,814)	1,748	0	1,716	1,149	1,202	50.5%	0.0%	0.90%	0.63%	0.10%	0.08%	172	119	(53)	-30.77%
$ 20,000 - $ 24,999	7,867	176,476,262	2,142,348	1,631,350	(510,999)	4,981	7	2,879	1,901	2,024	63.3%	0.1%	1.21%	0.92%	0.38%	0.32%	272	207	(65)	-23.85%
$ 25,000 - $ 29,999	6,814	187,172,250	3,358,391	2,854,766	(503,625)	5,367	10	1,437	993	1,070	78.8%	0.1%	1.79%	1.53%	0.59%	0.57%	493	419	(74)	-15.00%
$ 30,000 - $ 34,999	5,592	181,393,023	4,239,414	3,798,771	(440,643)	4,875	20	697	511	540	87.2%	0.4%	2.34%	2.09%	0.75%	0.76%	758	679	(79)	-10.39%
$ 35,000 - $ 39,999	4,802	179,791,785	5,048,140	4,603,656	(444,484)	4,298	26	478	358	378	89.5%	0.5%	2.81%	2.56%	0.89%	0.92%	1,051	959	(93)	-8.80%
$ 40,000 - $ 44,999	3,914	165,959,507	5,234,485	4,754,246	(480,239)	3,566	28	320	255	257	91.1%	0.7%	3.15%	2.86%	0.92%	0.95%	1,337	1,215	(123)	-9.17%
$ 45,000 - $ 49,999	3,223	152,869,012	5,255,994	4,713,958	(542,036)	2,933	40	250	218	219	91.0%	1.2%	3.44%	3.08%	0.93%	0.94%	1,631	1,463	(168)	-10.31%
$ 50,000 - $ 54,999	2,602	136,470,402	5,040,574	4,457,646	(582,928)	2,365	35	202	170	176	90.9%	1.3%	3.69%	3.27%	0.89%	0.89%	1,937	1,713	(224)	-11.56%
$ 55,000 - $ 59,999	2,173	124,775,707	5,012,247	4,380,175	(632,071)	1,983	41	149	125	122	91.3%	1.9%	4.02%	3.51%	0.88%	0.87%	2,307	2,016	(291)	-12.61%
$ 60,000 - $ 64,999	1,815	113,324,705	4,751,297	4,089,494	(661,803)	1,638	42	135	105	108	90.2%	2.3%	4.19%	3.61%	0.84%	0.81%	2,618	2,253	(365)	-13.93%
$ 65,000 - $ 69,999	1,435	96,747,093	4,121,598	3,503,984	(617,614)	1,283	32	120	99	99	89.4%	2.2%	4.26%	3.62%	0.73%	0.70%	2,872	2,442	(430)	-14.98%
$ 70,000 - $ 74,999	1,121	81,149,549	3,563,370	2,997,805	(565,565)	1,002	34	85	74	74	89.4%	3.0%	4.39%	3.69%	0.63%	0.60%	3,179	2,674	(505)	-15.87%
$ 75,000 - $ 79,999	947	73,229,553	3,400,638	2,837,762	(562,876)	852	28	67	55	54	90.0%	3.0%	4.64%	3.88%	0.60%	0.57%	3,591	2,997	(594)	-16.55%
$ 80,000 - $ 89,999	1,367	115,643,299	5,647,068	4,652,032	(995,054)	1,206	70	91	65	61	88.2%	5.1%	4.88%	4.02%	1.00%	0.93%	4,131	3,403	(728)	-17.62%
$ 90,000 - $ 99,999	934	88,376,509	4,316,080	3,561,287	(754,782)	803	69	62	51	48	86.0%	7.4%	4.88%	4.03%	0.76%	0.71%	4,621	3,813	(808)	-17.49%
$100,000 - $109,999	632	66,132,761	3,417,926	2,823,874	(594,052)	537	52	43	35	35	85.0%	8.2%	5.17%	4.27%	0.60%	0.56%	5,408	4,468	(940)	-17.38%
$110,000 - $119,999	470	54,003,068	2,745,318	2,302,015	(443,303)	391	53	26	30	22	83.2%	11.3%	5.08%	4.26%	0.48%	0.46%	5,841	4,898	(943)	-16.15%
$120,000 - $129,999	388	48,367,509	2,617,123	2,205,710	(411,413)	327	39	22	19	18	84.3%	10.1%	5.41%	4.56%	0.46%	0.44%	6,745	5,685	(1,060)	-15.72%
$130,000 - $139,999	329	44,433,261	2,487,301	2,069,431	(417,870)	287	31	11	8	8	87.2%	9.4%	5.60%	4.66%	0.44%	0.41%	7,560	6,290	(1,270)	-16.80%
$140,000 - $149,999	222	32,115,599	1,768,670	1,463,682	(304,988)	190	21	11	12	12	85.6%	9.5%	5.51%	4.56%	0.31%	0.29%	7,967	6,593	(1,374)	-17.24%
$150,000 - $174,999	474	76,550,057	4,669,210	3,918,627	(750,584)	403	60	11	14	10	85.0%	12.7%	6.10%	5.12%	0.82%	0.78%	9,851	8,267	(1,584)	-16.08%
$175,000 - $199,999	341	63,643,496	3,861,753	3,235,070	(626,683)	302	28	11	12	11	88.6%	8.2%	6.07%	5.08%	0.68%	0.64%	11,325	9,487	(1,838)	-16.23%
$200,000 - $299,999	621	150,152,835	9,760,091	8,459,024	(1,301,068)	531	77	13	10	6	85.5%	12.4%	6.50%	5.63%	1.72%	1.68%	15,717	13,622	(2,095)	-13.33%
$300,000 - $399,999	267	92,599,484	6,442,550	5,644,638	(797,912)	230	34	3	7	3	86.1%	12.7%	6.96%	6.10%	1.14%	1.12%	24,129	21,141	(2,988)	-12.39%
$400,000 - $499,999	133	59,518,332	4,182,879	3,762,525	(420,352)	110	22	1	1	1	82.7%	16.5%	7.03%	6.32%	0.74%	0.75%	31,450	28,290	(3,161)	-10.05%
$500,000+	246	338,744,706	21,796,874	18,996,766	(2,800,108)	200	40	6	12	7	81.3%	16.3%	6.43%	5.61%	3.85%	3.78%	88,605	77,223	(11,383)	-12.85%
TOTALS	73,258	3,198,328,524	126,611,303	108,831,257	(17,780,046)	46,370	940	25,948	19,913	20,436	63.3%	1.3%	3.96%	3.40%	22.35%	21.68%	1,728	1,486	(243)	-14.04%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,236	5,038,350	24,883	15,113	(9,771)	32	0	2,204	2,177	2,187	1.4%	0.0%	0.49%	0.30%	0.00%	0.00%	11	7	(4)	0.00%
2 ($4,949)	3,689	24,095,029	37,976	24,641	(13,335)	80	0	3,609	3,283	3,319	2.2%	0.0%	0.16%	0.10%	0.01%	0.00%	10	7	(4)	-35.11%
3 ($8,561)	6,554	70,860,999	210,231	117,722	(92,508)	756	0	5,798	4,328	4,398	11.5%	0.0%	0.30%	0.17%	0.04%	0.02%	32	18	(14)	-44.00%
4 ($13,896)	8,320	128,192,500	825,772	518,880	(306,893)	2,978	1	5,341	3,738	3,882	35.8%	0.0%	0.64%	0.40%	0.15%	0.10%	99	62	(37)	-37.16%
5 ($19,422)	9,803	203,194,228	2,185,409	1,601,255	(584,155)	5,608	5	4,190	2,772	2,928	57.2%	0.1%	1.08%	0.79%	0.39%	0.32%	223	163	(60)	-26.73%
6 ($25,447)	10,580	291,730,839	5,226,406	4,452,369	(774,037)	8,272	16	2,292	1,578	1,691	78.2%	0.2%	1.79%	1.53%	0.92%	0.89%	494	421	(73)	-14.81%
7 ($33,994)	9,941	362,510,576	9,858,402	8,956,251	(902,151)	8,864	50	1,027	775	817	89.2%	0.5%	2.72%	2.47%	1.74%	1.78%	992	901	(91)	-9.15%
8 ($43,668)	8,177	390,835,000	13,577,351	12,150,742	(1,426,609)	7,465	95	617	527	534	91.3%	1.2%	3.47%	3.11%	2.40%	2.42%	1,660	1,486	(174)	-10.51%
9 ($58,699)	6,619	420,762,250	17,666,335	15,157,544	(2,508,792)	5,974	150	495	406	406	90.3%	2.3%	4.20%	3.60%	3.12%	3.02%	2,669	2,290	(379)	-14.20%
10 ($77,161)	7,339	1,301,108,753	76,998,537	65,836,741	(11,161,795)	6,341	623	375	329	294	86.4%	8.5%	5.92%	5.06%	13.59%	13.11%	10,492	8,971	(1,521)	-14.50%
10A ($77,161)	2,020	163,199,711	7,877,081	6,520,162	(1,356,919)	1,810	75	135	100	97	89.6%	3.7%	4.83%	4.00%	1.39%	1.30%	3,900	3,228	(672)	-17.23%
10B ($97,819)	2,160	215,448,690	10,748,636	8,894,912	(1,853,724)	1,840	177	143	124	114	85.2%	8.2%	4.99%	4.13%	1.90%	1.77%	4,976	4,118	(858)	-17.25%
10C ($120,652)	3,159	922,460,352	58,372,820	50,421,667	(7,951,152)	2,691	371	97	105	83	85.2%	11.7%	6.33%	5.47%	10.31%	10.04%	18,478	15,961	(2,517)	-13.62%
TOTALS	73,258	3,198,328,524	126,611,303	108,831,257	(17,780,046)	46,370	940	25,948	19,913	20,436	63.3%	1.3%	3.96%	3.40%	22.35%	21.68%	1,728	1,486	(243)	-14.04%

Martz Tax Reform Proposal
All Households - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.
$ 0 - $ 1,999	15,233	17,050,627	25,483	14,524	(10,959)	41	0	15,192	15,152	15,165	0.3%	0.0%	0.15%	0.09%	0.00%	0.00%	2	1	(1)
$ 2,000 - $ 3,999	19,675	59,227,935	77,976	40,474	(37,502)	43	0	19,632	13,488	13,686	0.2%	0.0%	0.13%	0.07%	0.01%	0.01%	4	2	(2)
$ 4,000 - $ 5,999	19,151	95,502,559	570,165	272,166	(297,999)	125	0	19,026	5,841	6,101	0.7%	0.0%	0.60%	0.28%	0.10%	0.05%	30	14	(16)
$ 6,000 - $ 7,999	18,062	126,196,231	1,147,478	563,264	(584,215)	6,521	0	11,541	5,413	5,623	36.1%	0.0%	0.91%	0.45%	0.20%	0.11%	64	31	(32)
$ 8,000 - $ 9,999	16,977	152,501,624	1,647,583	889,186	(758,397)	8,675	0	8,302	4,473	4,638	51.1%	0.0%	1.08%	0.58%	0.29%	0.18%	97	52	(45)
$ 10,000 - $ 11,999	16,420	180,448,710	2,225,385	1,321,004	(904,380)	9,532	4	6,884	4,022	4,179	58.1%	0.0%	1.23%	0.73%	0.39%	0.26%	136	80	(55)
$ 12,000 - $ 13,999	16,187	210,451,238	3,041,432	1,979,523	(1,061,909)	10,850	2	5,335	3,155	3,327	67.0%	0.0%	1.45%	0.94%	0.54%	0.39%	188	122	(66)
$ 14,000 - $ 15,999	15,808	236,946,510	3,831,608	2,663,458	(1,168,151)	11,315	9	4,484	2,784	2,964	71.6%	0.1%	1.62%	1.12%	0.68%	0.53%	242	168	(74)
$ 16,000 - $ 17,999	14,972	254,441,679	4,634,617	3,458,925	(1,175,692)	11,447	9	3,516	2,168	2,329	76.5%	0.1%	1.82%	1.36%	0.82%	0.69%	310	231	(79)
$ 18,000 - $ 19,999	13,920	264,220,576	5,230,540	4,130,063	(1,100,477)	10,998	14	2,908	1,806	1,953	79.0%	0.1%	1.98%	1.56%	0.92%	0.82%	376	297	(79)
$ 20,000 - $ 24,999	29,457	660,158,142	14,918,755	12,631,546	(2,287,207)	24,663	52	4,742	2,999	3,359	83.7%	0.2%	2.26%	1.91%	2.63%	2.52%	506	429	(78)
$ 25,000 - $ 29,999	24,033	659,296,763	17,438,417	15,383,425	(2,054,991)	21,371	121	2,541	1,629	1,865	88.9%	0.5%	2.65%	2.33%	3.08%	3.06%	726	640	(86)
$ 30,000 - $ 34,999	20,556	666,950,915	19,818,459	17,671,806	(2,146,653)	18,885	198	1,473	918	1,089	91.9%	1.0%	2.97%	2.65%	3.50%	3.52%	964	860	(104)
$ 35,000 - $ 39,999	18,260	683,947,664	21,544,782	19,218,151	(2,326,631)	16,833	282	1,145	655	779	92.2%	1.5%	3.15%	2.81%	3.80%	3.83%	1,180	1,052	(127)
$ 40,000 - $ 44,999	16,359	694,339,301	23,116,873	20,657,094	(2,459,779)	15,054	392	913	455	531	92.0%	2.4%	3.33%	2.98%	4.08%	4.11%	1,413	1,263	(150)
$ 45,000 - $ 49,999	14,773	700,923,912	24,225,820	21,733,493	(2,492,327)	13,499	504	770	369	418	91.4%	3.4%	3.46%	3.10%	4.28%	4.33%	1,640	1,471	(169)
$ 50,000 - $ 54,999	13,088	686,482,354	24,833,065	22,336,897	(2,496,169)	11,891	496	701	281	321	90.9%	3.8%	3.62%	3.25%	4.38%	4.45%	1,897	1,707	(191)
$ 55,000 - $ 59,999	11,478	659,348,110	24,788,494	22,301,866	(2,486,628)	10,422	481	575	218	243	90.8%	4.2%	3.76%	3.38%	4.37%	4.44%	2,158	1,943	(215)
$ 60,000 - $ 64,999	10,389	648,773,702	25,318,491	22,835,738	(2,482,752)	9,319	549	521	173	187	89.7%	5.3%	3.90%	3.52%	4.47%	4.55%	2,437	2,198	(239)
$ 65,000 - $ 69,999	8,558	576,939,601	23,310,206	21,075,784	(2,234,422)	7,468	579	491	151	160	87.5%	6.8%	4.04%	3.65%	4.12%	4.20%	2,724	2,463	(261)
$ 70,000 - $ 74,999	7,092	513,554,247	21,330,145	19,314,411	(2,015,734)	6,144	547	401	119	131	86.6%	7.7%	4.15%	3.76%	3.77%	3.85%	3,008	2,723	(284)
$ 75,000 - $ 79,999	5,984	463,195,373	20,011,236	18,095,314	(1,915,921)	5,124	522	338	78	86	85.6%	8.7%	4.32%	3.91%	3.53%	3.60%	3,344	3,024	(320)
$ 80,000 - $ 89,999	8,493	719,012,218	32,315,067	29,303,599	(3,011,468)	7,086	922	485	115	112	83.4%	10.9%	4.49%	4.08%	5.71%	5.84%	3,805	3,450	(355)
$ 90,000 - $ 99,999	5,529	523,253,391	24,419,013	22,287,937	(2,131,077)	4,401	775	353	79	75	79.6%	14.0%	4.67%	4.26%	4.31%	4.44%	4,417	4,031	(385)
$100,000 - $109,999	3,561	373,102,425	18,063,293	16,556,606	(1,506,687)	2,756	588	217	55	64	77.4%	16.5%	4.84%	4.44%	3.19%	3.30%	5,073	4,649	(423)
$110,000 - $119,999	2,492	285,766,255	14,129,535	12,987,974	(1,141,561)	1,886	458	148	38	34	75.7%	18.4%	4.94%	4.54%	2.49%	2.59%	5,670	5,212	(458)
$120,000 - $129,999	1,772	221,206,141	11,310,253	10,326,297	(983,956)	1,323	349	100	31	30	74.7%	19.7%	5.11%	4.67%	2.00%	2.06%	6,383	5,827	(555)
$130,000 - $139,999	1,440	194,204,007	10,329,678	9,401,388	(928,290)	1,133	252	55	14	10	78.7%	17.5%	5.32%	4.84%	1.82%	1.87%	7,173	6,529	(645)
$140,000 - $149,999	1,043	150,964,794	8,117,757	7,368,217	(749,540)	795	202	46	14	14	78.2%	19.4%	5.38%	4.88%	1.43%	1.47%	7,783	7,064	(719)
$150,000 - $174,999	1,994	321,283,211	18,334,795	16,551,217	(1,783,578)	1,541	392	61	25	22	77.3%	19.7%	5.71%	5.15%	3.24%	3.30%	9,195	8,301	(894)
$175,000 - $199,999	1,344	251,423,161	14,663,867	13,174,813	(1,489,054)	1,073	232	39	20	18	79.8%	17.3%	5.83%	5.24%	2.59%	2.62%	10,911	9,803	(1,108)
$200,000 - $299,999	2,296	552,471,545	34,504,137	31,039,394	(3,464,743)	1,836	417	43	18	14	80.0%	18.2%	6.25%	5.62%	6.09%	6.18%	15,028	13,519	(1,509)
$300,000 - $399,999	868	298,554,452	20,355,101	18,136,618	(2,218,482)	715	145	8	8	3	82.4%	16.7%	6.82%	6.07%	3.59%	3.61%	23,451	20,895	(2,556)
$400,000 - $499,999	400	178,193,460	12,592,942	11,278,045	(1,314,897)	327	70	3	4	2	81.8%	17.5%	7.07%	6.33%	2.22%	2.25%	31,482	28,195	(3,287)
$500,000+	765	900,903,974	64,230,777	55,099,126	(9,131,651)	655	120	10	17	12	83.4%	15.3%	7.13%	6.12%	11.34%	10.97%	81,823	70,190	(11,633)
TOTALS	378,449	14,181,236,807	566,433,224	502,099,344	(64,333,879)	255,767	9,683	112,999	66,785	69,544	67.6%	2.6%	3.99%	3.54%	100.00%	100.00%	1,497	1,327	(170)

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.
1 ($0)	37,845	88,462,369	151,382	78,303	(73,079)	90	0	37,755	29,471	29,728	0.2%	0.0%	0.17%	0.09%	0.03%	0.02%	4	2	(2)
2 ($4,949)	37,845	238,783,222	1,962,061	962,407	(999,654)	8,385	0	29,460	11,371	11,834	22.2%	0.0%	0.82%	0.40%	0.35%	0.19%	52	25	(26)
3 ($8,581)	37,845	403,885,977	4,991,167	2,965,020	(2,026,147)	21,714	5	16,126	9,151	9,507	57.4%	0.0%	1.24%	0.73%	0.88%	0.59%	132	78	(54)
4 ($13,896)	37,845	561,629,512	9,722,113	6,906,861	(2,815,252)	27,506	18	10,321	6,357	6,780	72.7%	0.0%	1.67%	1.19%	1.72%	1.38%	257	183	(74)
5 ($19,422)	37,845	782,304,874	16,651,875	13,705,985	(2,945,890)	30,798	57	6,990	4,360	4,806	81.4%	0.2%	2.13%	1.75%	2.94%	2.73%	440	362	(78)
6 ($25,447)	37,845	1,042,375,101	27,676,956	24,402,280	(3,274,676)	33,619	183	4,043	2,584	2,958	88.8%	0.5%	2.66%	2.34%	4.89%	4.86%	731	645	(87)
7 ($33,994)	37,845	1,383,401,057	43,287,256	38,619,595	(4,667,661)	34,878	575	2,392	1,389	1,653	92.2%	1.5%	3.13%	2.79%	7.64%	7.69%	1,144	1,020	(123)
8 ($43,668)	37,845	1,818,645,709	63,512,143	56,987,430	(6,524,713)	34,598	1,240	2,007	923	1,059	91.4%	3.3%	3.49%	3.13%	11.21%	11.35%	1,678	1,506	(172)
9 ($58,699)	37,845	2,419,798,946	95,637,848	86,341,457	(9,296,390)	33,663	2,172	2,010	666	726	88.9%	5.7%	3.95%	3.57%	16.88%	17.20%	2,527	2,281	(246)
10 ($77,161)	37,844	5,421,750,040	302,840,423	271,130,006	(31,710,417)	30,516	5,433	1,895	513	493	80.6%	14.4%	5.59%	5.00%	53.46%	54.00%	8,002	7,164	(838)
10A ($77,161)	12,615	1,019,006,810	44,955,907	40,681,984	(4,273,913)	10,695	1,208	712	163	172	84.8%	9.6%	4.41%	3.99%	7.94%	8.10%	3,564	3,225	(339)
10B ($97,819)	12,615	1,253,943,681	59,465,934	54,417,195	(5,048,739)	9,920	1,910	785	186	188	78.6%	15.1%	4.74%	4.34%	10.50%	10.84%	4,714	4,314	(400)
10C ($120,652)	12,614	3,148,799,549	198,416,581	176,030,817	(22,387,764)	9,901	2,315	398	164	133	78.5%	18.4%	6.30%	5.59%	35.03%	35.06%	15,730	13,955	(1,775)
TOTALS	378,449	14,181,236,807	566,433,224	502,099,344	(64,333,879)	255,767	9,683	112,999	66,785	69,544	67.6%	2.6%	3.99%	3.54%	100.00%	100.00%	1,497	1,327	(170)

Martz Tax Reform Proposal
Retiree Households - Tax Year 2006 Impacts

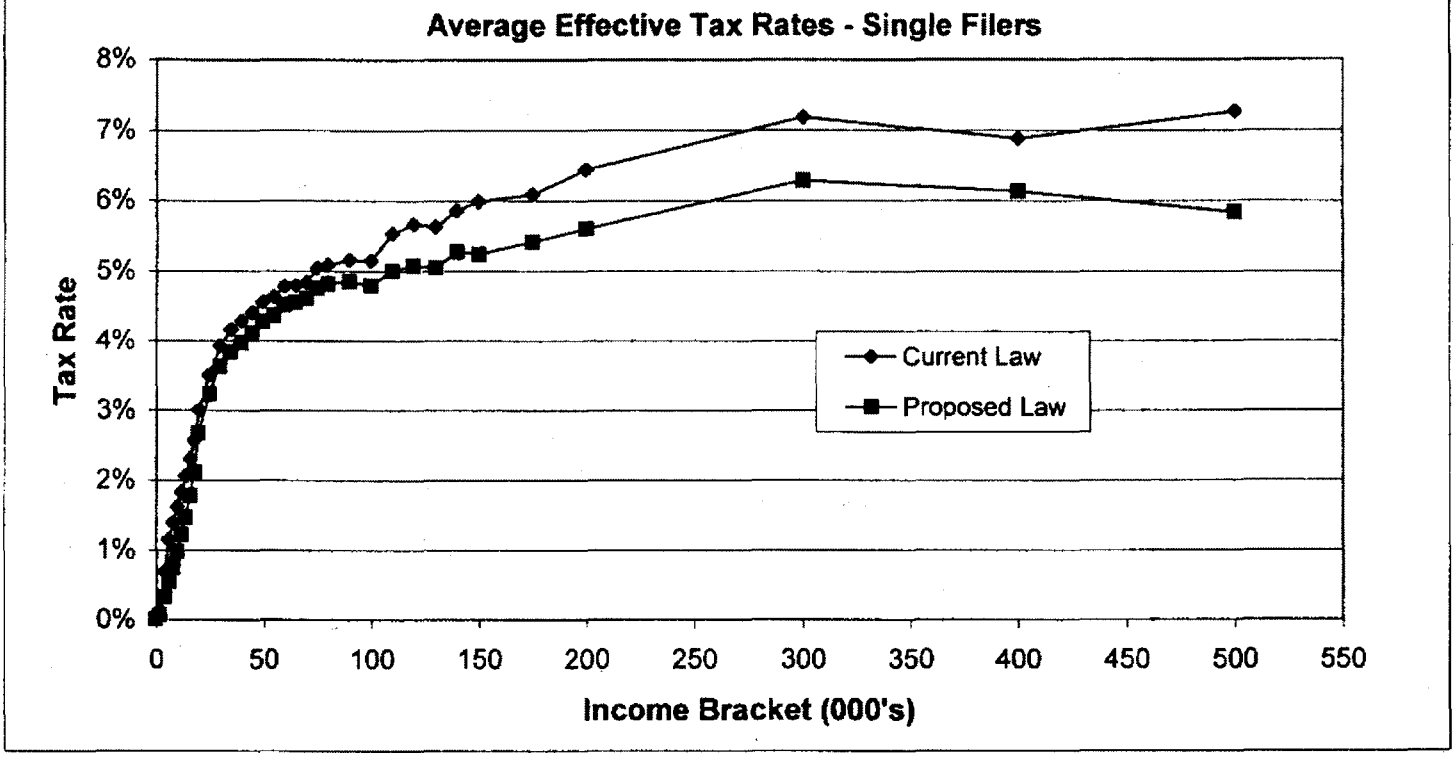
IMPACTS BY INCOME BRACKET

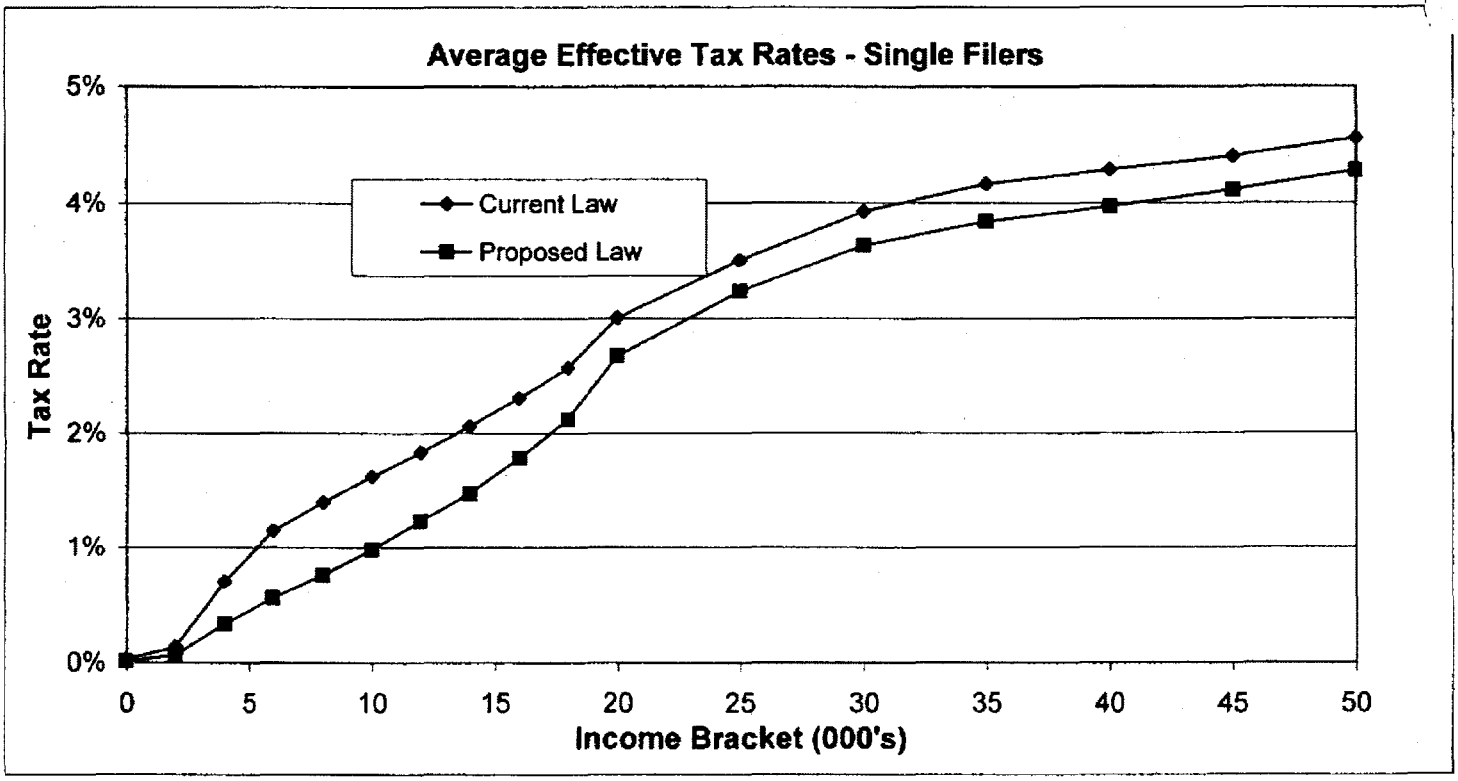
Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	608	718,777	10,717	6,313	(4,405)	6	0	602	595	595	1.0%	0.0%	1.49%	0.88%	0.00%	0.00%	18	10	(7)	0.00%
$ 2,000 - $ 3,999	1,219	3,736,074	4,190	2,377	(1,813)	12	0	1,207	1,128	1,132	1.0%	0.0%	0.11%	0.06%	0.00%	0.00%	3	2	(1)	-43.28%
$ 4,000 - $ 5,999	1,818	9,189,292	12,193	6,255	(5,939)	16	0	1,802	1,569	1,579	0.9%	0.0%	0.13%	0.07%	0.00%	0.00%	7	3	(3)	-48.70%
$ 6,000 - $ 7,999	2,564	17,981,977	31,332	15,616	(15,717)	129	0	2,435	2,015	2,044	5.0%	0.0%	0.17%	0.09%	0.01%	0.00%	12	6	(6)	-50.16%
$ 8,000 - $ 9,999	3,191	28,732,670	83,011	43,410	(39,601)	314	0	2,877	2,015	2,063	9.8%	0.0%	0.29%	0.15%	0.01%	0.01%	26	14	(12)	-47.71%
$ 10,000 - $ 11,999	3,511	38,626,556	140,039	75,552	(64,487)	576	0	2,935	2,093	2,145	16.4%	0.0%	0.36%	0.20%	0.02%	0.02%	40	22	(18)	-46.05%
$ 12,000 - $ 13,999	3,573	46,501,748	232,456	133,052	(99,405)	957	0	2,616	1,700	1,778	26.8%	0.0%	0.50%	0.29%	0.04%	0.03%	65	37	(28)	-42.75%
$ 14,000 - $ 15,999	3,747	56,144,126	363,935	226,441	(137,494)	1,347	3	2,397	1,518	1,613	35.9%	0.1%	0.65%	0.40%	0.06%	0.05%	97	60	(37)	-37.78%
$ 16,000 - $ 17,999	3,544	60,242,837	500,527	332,872	(167,654)	1,664	5	1,875	1,176	1,239	47.0%	0.1%	0.83%	0.55%	0.09%	0.07%	141	94	(47)	-33.50%
$ 18,000 - $ 19,999	3,390	64,328,363	616,654	433,885	(182,769)	1,778	4	1,608	989	1,060	52.4%	0.1%	0.98%	0.67%	0.11%	0.09%	182	128	(54)	-29.64%
$ 20,000 - $ 24,999	7,301	163,705,951	2,082,463	1,575,669	(486,794)	4,766	19	2,516	1,527	1,686	65.3%	0.3%	1.26%	0.96%	0.36%	0.31%	282	216	(67)	-23.60%
$ 25,000 - $ 29,999	6,027	165,372,241	3,133,944	2,668,194	(465,751)	4,805	57	1,165	687	793	79.7%	0.9%	1.90%	1.61%	0.55%	0.53%	520	443	(77)	-14.86%
$ 30,000 - $ 34,999	5,198	168,572,419	4,098,307	3,621,684	(476,624)	4,452	102	644	341	435	85.6%	2.0%	2.43%	2.15%	0.72%	0.72%	788	697	(92)	-11.63%
$ 35,000 - $ 39,999	4,744	177,841,411	4,868,260	4,354,428	(514,832)	4,135	145	464	229	290	87.2%	3.1%	2.74%	2.45%	0.86%	0.87%	1,026	918	(109)	-10.57%
$ 40,000 - $ 44,999	4,361	185,070,486	5,573,227	5,025,478	(547,749)	3,766	216	379	137	173	86.4%	5.0%	3.01%	2.72%	0.98%	1.00%	1,278	1,152	(126)	-9.83%
$ 45,000 - $ 49,999	4,006	190,159,191	6,166,917	5,606,897	(560,021)	3,413	269	324	109	124	85.2%	6.7%	3.24%	2.95%	1.09%	1.12%	1,539	1,400	(140)	-9.08%
$ 50,000 - $ 54,999	3,683	193,420,239	6,649,341	6,040,398	(608,943)	3,085	260	338	100	112	83.8%	7.1%	3.44%	3.12%	1.17%	1.20%	1,805	1,640	(165)	-9.16%
$ 55,000 - $ 59,999	3,308	190,024,991	6,867,652	6,258,687	(608,965)	2,768	260	280	74	80	83.7%	7.9%	3.61%	3.29%	1.21%	1.25%	2,076	1,892	(184)	-8.87%
$ 60,000 - $ 64,999	3,075	192,147,290	7,245,042	6,613,033	(632,009)	2,511	296	268	63	70	81.7%	9.6%	3.77%	3.44%	1.28%	1.32%	2,356	2,151	(206)	-8.72%
$ 65,000 - $ 69,999	2,582	174,066,270	6,815,251	6,259,790	(555,461)	2,057	313	212	36	37	79.7%	12.1%	3.92%	3.60%	1.20%	1.25%	2,640	2,424	(215)	-8.15%
$ 70,000 - $ 74,999	2,206	159,717,131	6,457,598	5,922,510	(535,088)	1,727	289	190	47	49	78.3%	13.1%	4.04%	3.71%	1.14%	1.18%	2,927	2,685	(243)	-8.29%
$ 75,000 - $ 79,999	1,890	146,229,620	6,136,464	5,636,908	(499,556)	1,468	269	153	27	29	77.7%	14.2%	4.20%	3.85%	1.08%	1.12%	3,247	2,982	(264)	-8.14%
$ 80,000 - $ 89,999	2,658	224,986,807	9,827,976	9,079,668	(748,308)	1,997	470	191	43	41	75.1%	17.7%	4.37%	4.04%	1.74%	1.81%	3,698	3,416	(282)	-7.61%
$ 90,000 - $ 99,999	1,818	172,198,640	7,942,032	7,365,206	(576,826)	1,312	367	139	27	22	72.2%	20.2%	4.61%	4.28%	1.40%	1.47%	4,369	4,051	(317)	-7.26%
$100,000 - $109,999	1,203	126,083,022	5,983,888	5,590,736	(393,152)	846	279	78	22	24	70.3%	23.2%	4.75%	4.43%	1.06%	1.11%	4,974	4,647	(327)	-6.57%
$110,000 - $119,999	842	96,555,189	4,752,562	4,420,595	(331,967)	590	195	57	15	15	70.1%	23.2%	4.92%	4.58%	0.84%	0.88%	5,644	5,250	(394)	-6.99%
$120,000 - $129,999	592	73,848,735	3,802,516	3,490,545	(311,973)	434	135	23	7	6	73.3%	22.8%	5.15%	4.73%	0.67%	0.70%	6,423	5,896	(527)	-8.20%
$130,000 - $139,999	480	64,797,875	3,375,104	3,119,842	(255,263)	367	88	25	5	3	76.5%	18.3%	5.21%	4.81%	0.60%	0.62%	7,031	6,500	(532)	-7.56%
$140,000 - $149,999	334	48,298,366	2,548,133	2,348,220	(199,913)	239	79	16	5	6	71.6%	23.7%	5.28%	4.86%	0.45%	0.47%	7,629	7,031	(599)	-7.85%
$150,000 - $174,999	612	98,416,727	5,521,349	5,055,332	(466,017)	460	131	21	8	7	75.2%	21.4%	5.61%	5.14%	0.97%	1.01%	9,022	8,260	(761)	-8.44%
$175,000 - $199,999	416	77,711,706	4,451,070	3,984,801	(466,269)	335	75	6	6	4	80.5%	18.0%	5.73%	5.13%	0.79%	0.79%	10,700	9,579	(1,121)	-10.48%
$200,000 - $299,999	589	140,714,489	8,623,156	7,810,480	(812,676)	460	115	14	6	4	78.1%	19.5%	6.13%	5.55%	1.52%	1.56%	14,640	13,261	(1,380)	-9.42%
$300,000 - $399,999	196	67,398,631	4,505,812	3,997,968	(507,844)	157	38	1	1	0	80.1%	19.4%	6.69%	5.93%	0.80%	0.80%	22,989	20,398	(2,591)	-11.27%
$400,000 - $499,999	112	49,845,540	3,504,263	3,077,966	(426,297)	93	19	0	0	0	83.0%	17.0%	7.03%	6.18%	0.62%	0.61%	31,288	27,482	(3,806)	-12.17%
$500,000+	185	214,965,000	15,791,795	13,599,446	(2,192,349)	152	31	2	4	3	82.2%	16.8%	7.35%	6.33%	2.79%	2.71%	85,361	73,511	(11,851)	-13.88%
TOTALS	85,583	3,888,350,387	148,700,180	133,800,250	(14,899,930)	53,194	4,529	27,860	18,324	19,261	62.2%	5.3%	3.82%	3.44%	26.25%	26.65%	1,737	1,563	(174)	-10.02%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,044	5,355,005	15,483	8,976	(6,506)	18	0	2,026	1,915	1,919	0.9%	0.0%	0.29%	0.17%	0.00%	0.00%	8	4	(3)	-42.02%
2 ($4,949)	4,787	31,374,001	55,920	28,062	(27,858)	198	0	4,589	3,793	3,839	4.1%	0.0%	0.18%	0.09%	0.01%	0.01%	12	6	(6)	-49.82%
3 ($8,581)	7,799	83,734,424	311,143	169,162	(141,981)	1,253	0	6,546	4,562	4,690	16.1%	0.0%	0.37%	0.20%	0.05%	0.03%	40	22	(18)	-45.63%
4 ($13,696)	8,892	136,875,767	953,539	606,138	(347,401)	3,423	7	5,462	3,460	3,656	38.5%	0.1%	0.70%	0.44%	0.17%	0.12%	107	68	(39)	-36.43%
5 ($19,422)	9,271	191,753,268	2,132,435	1,575,081	(557,355)	5,467	19	3,785	2,312	2,515	59.0%	0.2%	1.11%	0.82%	0.38%	0.31%	230	170	(60)	-26.14%
6 ($25,447)	9,558	263,455,600	5,030,120	4,281,937	(748,183)	7,566	92	1,900	1,114	1,284	79.2%	1.0%	1.91%	1.63%	0.89%	0.85%	526	448	(78)	-14.87%
7 ($33,994)	9,747	357,148,595	9,657,416	8,627,172	(1,030,244)	8,463	301	983	480	616	86.8%	3.1%	2.70%	2.42%	1.70%	1.72%	991	885	(106)	-10.67%
8 ($43,668)	10,343	498,229,536	16,302,514	14,789,400	(1,513,114)	8,798	659	886	290	340	85.1%	6.4%	3.27%	2.97%	2.88%	2.95%	1,576	1,430	(146)	-9.28%
9 ($58,699)	11,260	721,751,650	27,626,577	25,274,283	(2,352,294)	9,130	1,166	962	222	238	81.1%	10.4%	3.83%	3.50%	4.88%	5.03%	2,454	2,245	(209)	-8.51%
10 ($77,161)	11,882	1,598,672,541	86,615,033	78,440,039	(8,174,995)	8,878	2,283	721	176	164	74.7%	19.2%	5.42%	4.91%	15.29%	15.82%	7,290	6,602	(688)	-9.44%
10A ($77,161)	3,958	319,402,619	13,726,743	12,629,029	(1,097,714)	3,041	618	299	59	61	76.8%	15.6%	4.30%	3.95%	2.42%	2.52%	3,468	3,191	(277)	-8.00%
10B ($97,819)	4,173	415,446,144	19,337,845	18,016,689	(1,321,156)	2,960	909	304	73	68	70.9%	21.8%	4.65%	4.34%	3.41%	3.59%	4,634	4,317	(317)	-6.83%
10C ($120,652)	3,751	863,823,778	53,550,445	47,794,321	(5,756,125)	2,877	756	118	44	35	76.7%	20.2%	6.20%	5.53%	9.45%	9.52%	14,276	12,742	(1,535)	-10.75%
TOTALS	85,583	3,888,350,387	148,700,180	133,800,250	(14,899,930)	53,194	4,529	27,860	18,324	19,261	62.2%	5.3%	3.82%	3.44%	26.25%	26.65%	1,737	1,563	(174)	-10.02%

Martz Tax Reform Proposal
Tax Year 2006 Impacts





Governor Martz Proposal - TY2005

Individual Income Tax Current Law Tax Rate Table

0	2,400	2%	
2,400	4,700	3%	(24)
4,700	9,500	4%	(71)
9,500	14,200	5%	(166)
14,200	19,000	6%	(308)
19,000	23,700	7%	(498)
23,700	33,200	8%	(735)
33,200	47,400	9%	(1,067)
47,400	83,000	10%	(1,541)
83,000		11%	(2,371)

Individual Income Tax Proposed Law Tax Rate Table

0	2,800	1%	
2,800	4,200	2%	(28)
4,200	6,600	3%	(70)
6,600	9,200	4%	(136)
9,200	12,400	5%	(228)
12,400	15,600	6%	(352)
15,600		6.9%	(492)

Governor Martz Proposal - TY2006

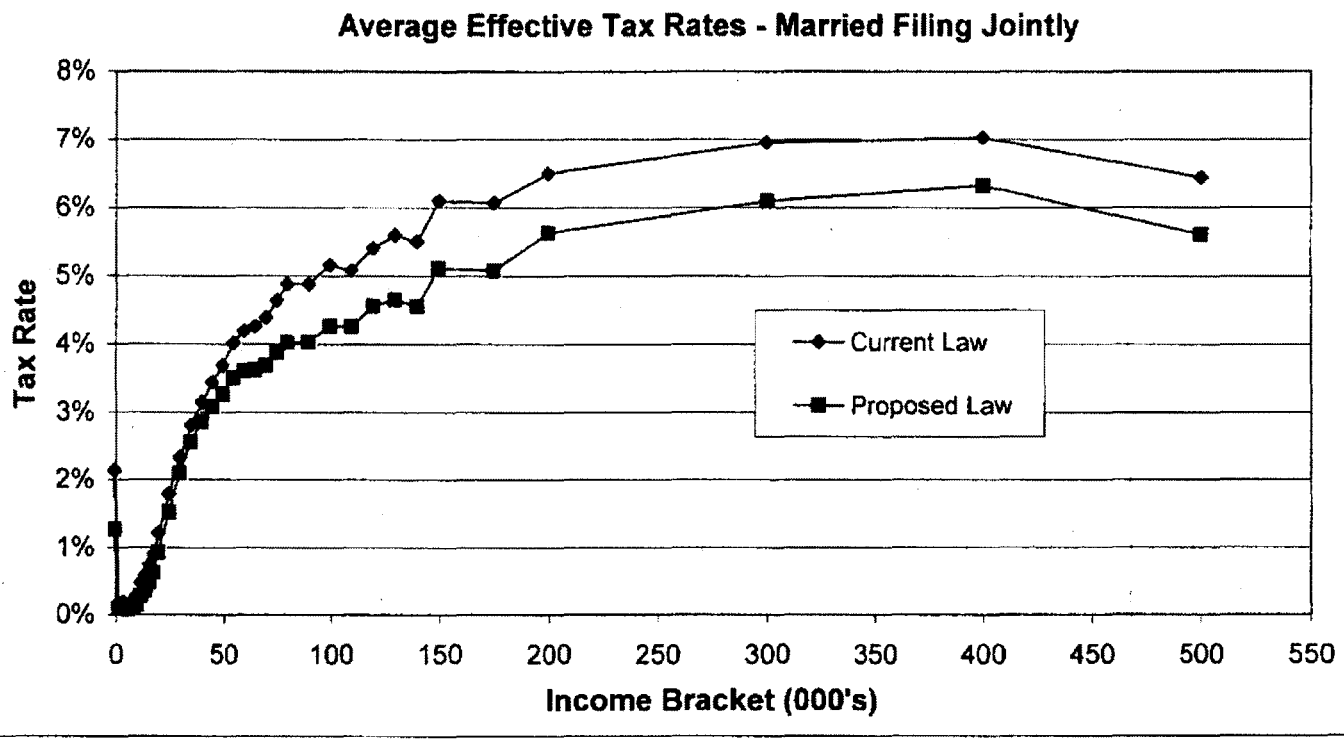
Individual Income Tax Current Law Tax Rate Table

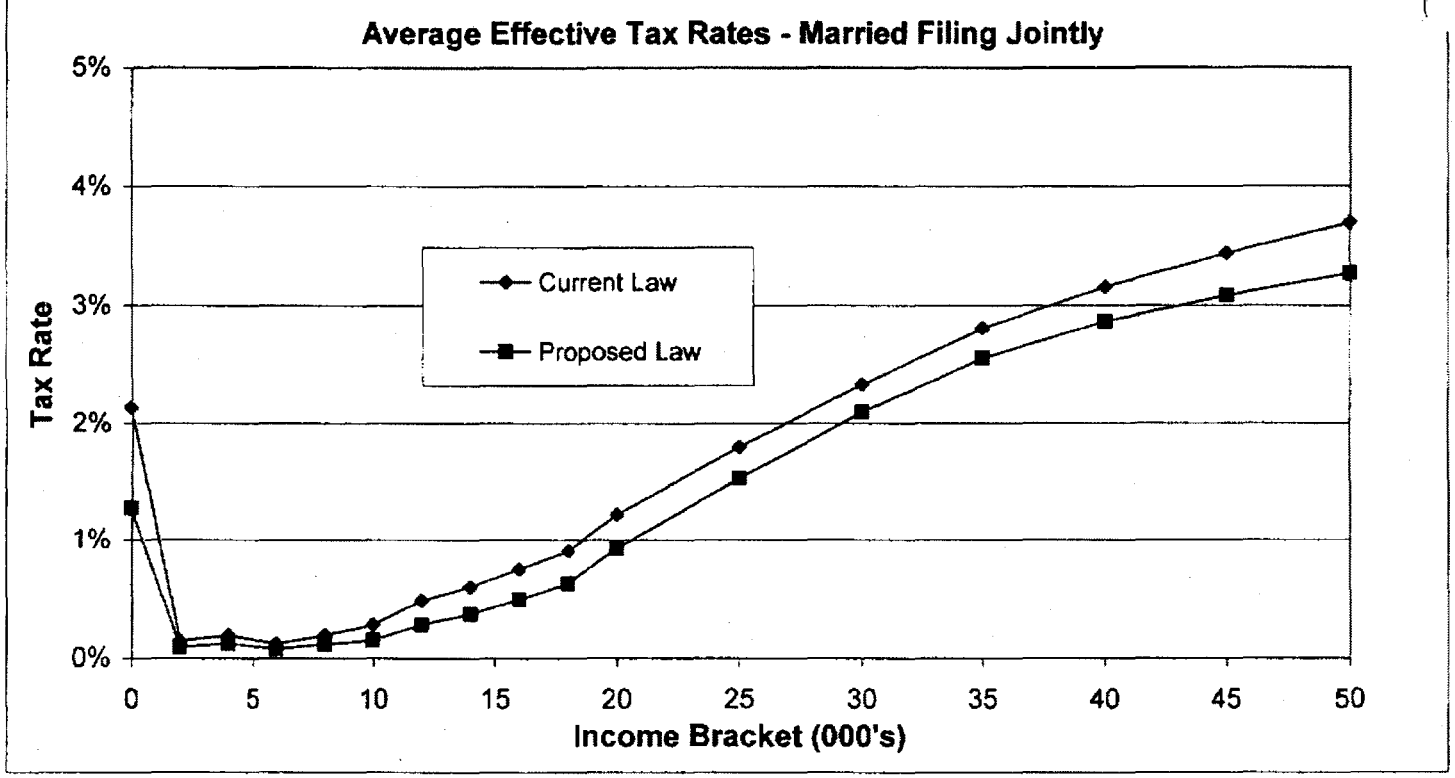
0	2,400	2%	
2,400	4,900	3%	(24)
4,900	9,700	4%	(73)
9,700	14,600	5%	(170)
14,600	19,500	6%	(316)
19,500	24,300	7%	(511)
24,300	34,100	8%	(754)
34,100	48,700	9%	(1,095)
48,700	85,100	10%	(1,582)
85,100		11%	(2,433)

Individual Income Tax Proposed Law Tax Rate Table

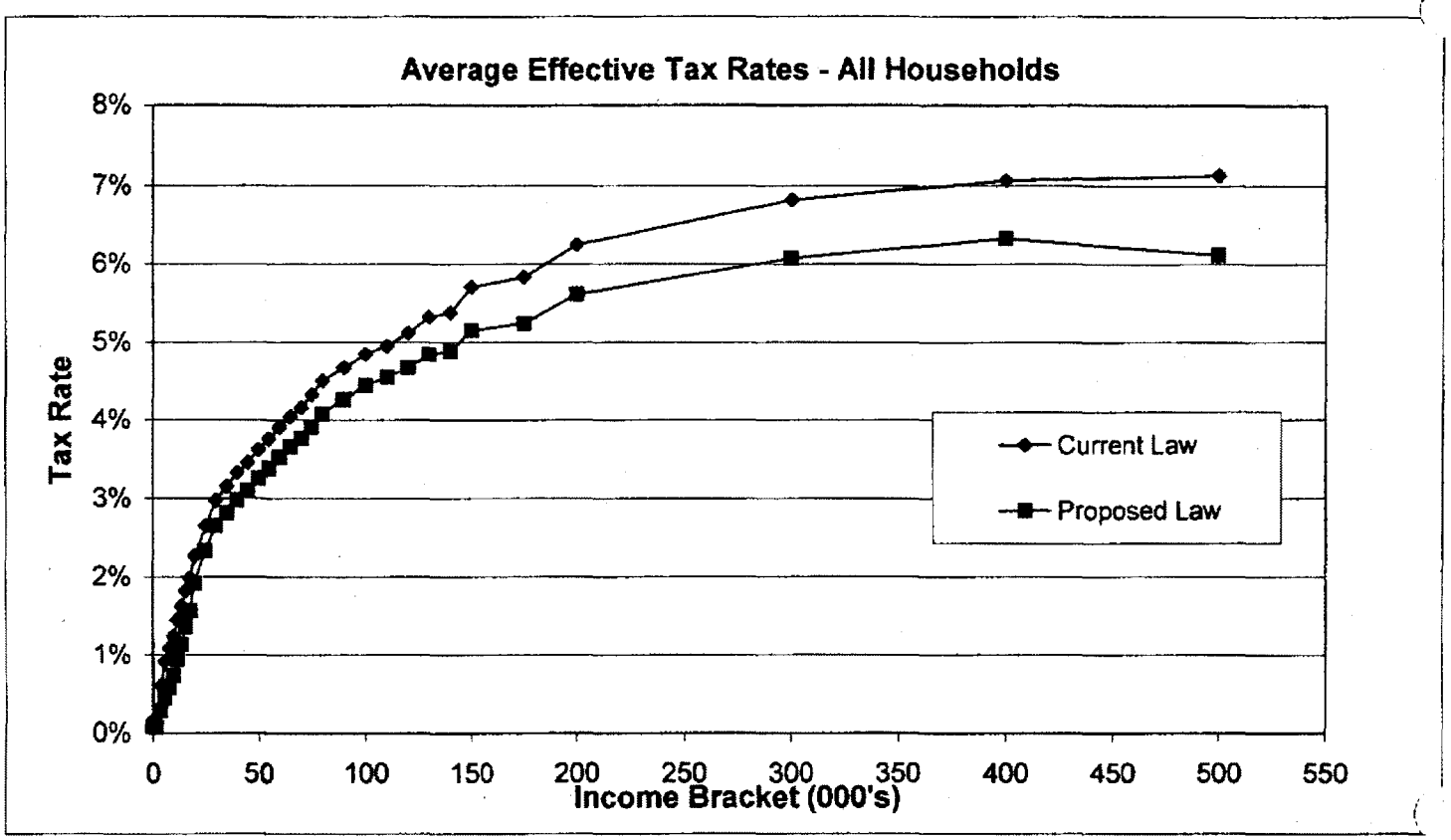
0	3,400	1%	
3,400	5,500	2%	(34)
5,500	7,900	3%	(89)
7,900	10,900	4%	(168)
10,900	13,200	5%	(277)
13,200	15,500	6%	(409)
15,500		6.9%	(549)

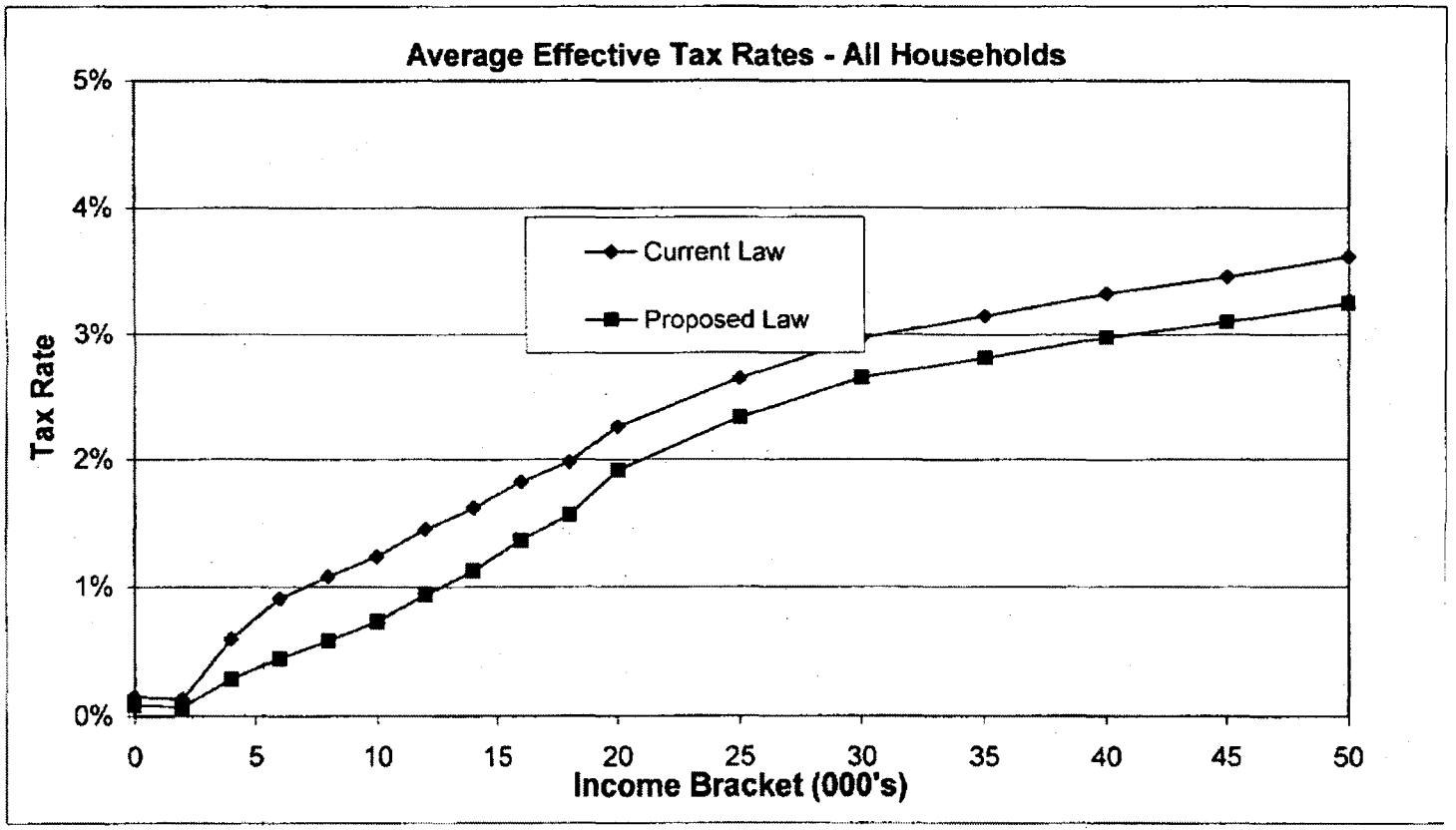
Martz Tax Reform Proposal
Tax Year 2006 Impacts



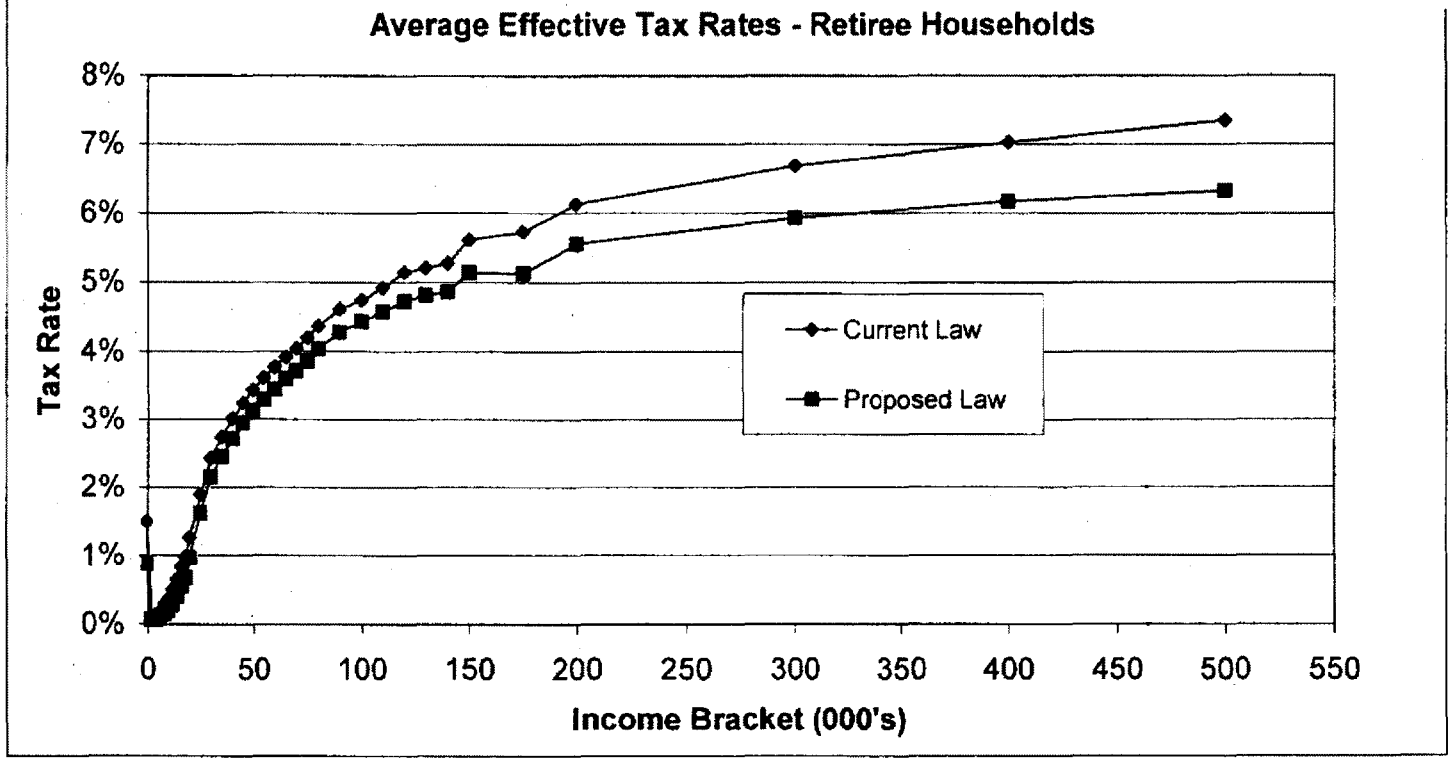


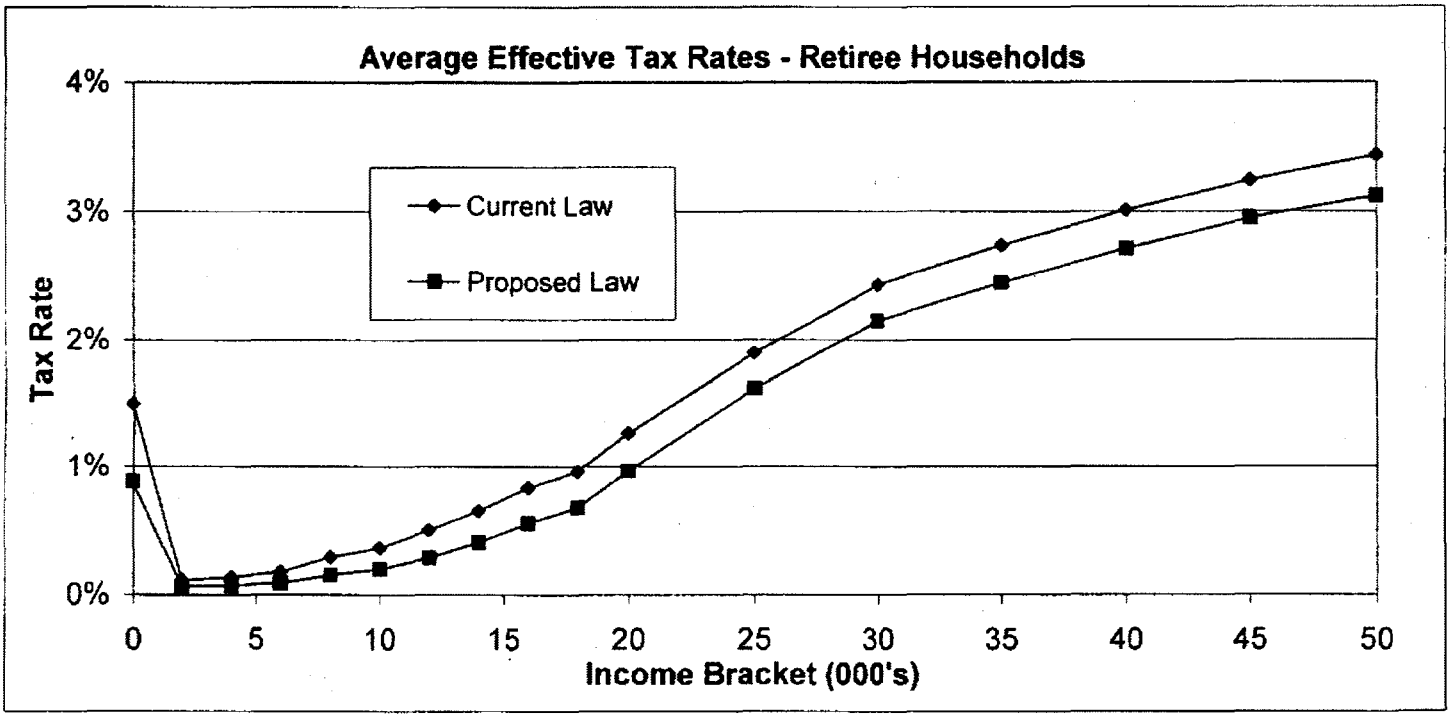
Martz Tax Reform Proposal
Tax Year 2006 Impacts





Martz Tax Reform Proposal
Tax Year 2006 Impacts





Martz Tax Reform Proposal
Single Filers - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	13,454	15,171,798	4,308	2,006	(2,302)	19	0	13,435	13,413	13,417	0.1%	0.0%	0.03%	0.01%	0.00%	0.00%	0	0	(0)	0.00%
$ 2,000 - $ 3,999	17,054	51,215,482	68,094	33,790	(34,304)	23	0	17,031	10,953	11,145	0.1%	0.0%	0.13%	0.07%	0.01%	0.01%	4	2	(2)	-50.38%
$ 4,000 - $ 5,999	15,695	78,086,648	545,586	257,342	(288,244)	80	0	15,615	2,682	2,921	0.5%	0.0%	0.70%	0.33%	0.10%	0.05%	35	16	(18)	-52.83%
$ 6,000 - $ 7,999	13,654	95,212,667	1,090,191	531,847	(558,344)	6,388	0	7,266	2,318	2,494	46.8%	0.0%	1.15%	0.56%	0.19%	0.11%	80	39	(41)	-51.22%
$ 8,000 - $ 9,999	11,797	105,821,576	1,475,748	799,831	(675,916)	8,202	0	3,595	1,878	1,999	69.5%	0.0%	1.39%	0.76%	0.26%	0.16%	125	68	(57)	-45.80%
$ 10,000 - $ 11,999	10,449	114,728,223	1,859,289	1,127,450	(731,839)	7,748	3	2,698	1,527	1,620	74.2%	0.0%	1.62%	0.98%	0.33%	0.22%	178	108	(70)	-39.36%
$ 12,000 - $ 13,999	9,783	127,054,257	2,330,257	1,561,191	(769,066)	7,796	1	1,986	1,084	1,169	79.7%	0.0%	1.83%	1.23%	0.41%	0.31%	238	160	(79)	-33.00%
$ 14,000 - $ 15,999	9,113	136,538,554	2,813,009	2,011,248	(801,760)	7,620	6	1,487	786	859	83.6%	0.1%	2.06%	1.47%	0.50%	0.40%	309	221	(88)	-28.50%
$ 16,000 - $ 17,999	8,347	141,766,791	3,277,307	2,529,713	(747,594)	7,311	8	1,028	532	587	87.6%	0.1%	2.31%	1.78%	0.58%	0.50%	393	303	(90)	-22.81%
$ 18,000 - $ 19,999	7,247	137,532,593	3,540,556	2,919,797	(620,759)	6,522	11	714	403	434	90.0%	0.2%	2.57%	2.12%	0.63%	0.58%	489	403	(86)	-17.53%
$ 20,000 - $ 24,999	13,915	311,406,877	9,367,247	8,342,127	(1,025,119)	12,949	39	927	574	629	93.1%	0.3%	3.01%	2.68%	1.65%	1.66%	673	600	(74)	-10.94%
$ 25,000 - $ 29,999	10,057	275,344,556	9,649,058	8,903,440	(745,618)	9,412	100	545	335	348	93.6%	1.0%	3.50%	3.23%	1.70%	1.77%	959	885	(74)	-7.73%
$ 30,000 - $ 34,999	7,577	245,203,178	9,628,971	8,909,834	(719,137)	7,019	154	404	209	222	92.6%	2.0%	3.93%	3.63%	1.70%	1.77%	1,271	1,176	(95)	-7.47%
$ 35,000 - $ 39,999	5,572	208,350,516	8,676,465	8,002,624	(673,842)	4,972	211	389	142	151	89.2%	3.8%	4.16%	3.84%	1.53%	1.59%	1,557	1,436	(121)	-7.77%
$ 40,000 - $ 44,999	4,181	177,101,096	7,592,177	7,032,755	(559,423)	3,478	311	392	122	124	83.2%	7.4%	4.29%	3.97%	1.34%	1.40%	1,816	1,682	(134)	-7.37%
$ 45,000 - $ 49,999	3,098	146,571,533	6,453,922	6,026,583	(427,339)	2,402	368	328	84	84	77.5%	11.9%	4.40%	4.11%	1.14%	1.20%	2,083	1,945	(138)	-6.62%
$ 50,000 - $ 54,999	2,228	116,716,160	5,319,256	4,994,790	(324,466)	1,655	323	250	56	61	74.3%	14.5%	4.56%	4.28%	0.94%	0.99%	2,387	2,242	(146)	-6.10%
$ 55,000 - $ 59,999	1,629	87,747,768	4,065,120	3,829,333	(235,786)	1,085	252	192	48	47	71.0%	16.5%	4.63%	4.36%	0.72%	0.76%	2,659	2,504	(154)	-5.80%
$ 60,000 - $ 64,999	1,209	75,405,888	3,611,896	3,410,473	(201,423)	873	213	123	35	31	72.2%	17.6%	4.79%	4.52%	0.64%	0.68%	2,988	2,821	(167)	-5.58%
$ 65,000 - $ 69,999	898	60,470,911	2,899,798	2,753,332	(146,466)	620	186	92	31	30	69.0%	20.7%	4.80%	4.55%	0.51%	0.55%	3,229	3,066	(163)	-5.05%
$ 70,000 - $ 74,999	608	43,993,772	2,129,667	2,025,782	(103,885)	421	128	59	22	17	69.2%	21.1%	4.84%	4.60%	0.38%	0.40%	3,503	3,332	(171)	-4.88%
$ 75,000 - $ 79,999	504	39,037,896	1,970,401	1,856,853	(111,548)	358	108	40	9	8	70.6%	21.4%	5.05%	4.76%	0.35%	0.37%	3,910	3,688	(221)	-5.66%
$ 80,000 - $ 89,999	683	57,686,223	2,937,838	2,782,108	(155,731)	475	160	48	23	19	69.5%	23.4%	5.09%	4.82%	0.52%	0.55%	4,301	4,073	(228)	-5.30%
$ 90,000 - $ 99,999	448	42,394,323	2,188,833	2,059,191	(129,643)	312	101	35	16	14	69.6%	22.5%	5.16%	4.86%	0.39%	0.41%	4,886	4,596	(289)	-5.92%
$100,000 - $109,999	321	33,638,309	1,732,963	1,613,222	(119,740)	226	69	24	12	12	71.0%	21.5%	5.15%	4.80%	0.31%	0.32%	5,399	5,026	(373)	-6.91%
$110,000 - $119,999	207	23,839,771	1,321,383	1,195,585	(125,798)	159	39	9	3	4	76.8%	18.8%	5.54%	5.02%	0.23%	0.24%	6,383	5,776	(608)	-9.52%
$120,000 - $129,999	160	19,971,735	1,133,667	1,015,334	(118,333)	123	25	12	7	7	76.9%	15.6%	5.68%	5.08%	0.20%	0.20%	7,085	6,346	(740)	-10.44%
$130,000 - $139,999	126	17,051,872	961,349	861,533	(99,816)	101	20	5	4	1	80.2%	15.9%	5.64%	5.05%	0.17%	0.17%	7,630	6,838	(792)	-10.38%
$140,000 - $149,999	116	16,815,122	985,412	887,919	(97,492)	90	24	2	1	1	77.6%	20.7%	5.86%	5.28%	0.17%	0.16%	8,495	7,654	(840)	-9.89%
$150,000 - $174,999	210	33,916,676	2,032,907	1,780,077	(252,829)	166	39	5	3	2	79.0%	18.6%	5.99%	5.25%	0.36%	0.35%	9,681	8,477	(1,204)	-12.44%
$175,000 - $199,999	135	25,300,033	1,541,537	1,371,721	(169,816)	100	28	7	6	4	74.1%	20.7%	6.09%	5.42%	0.27%	0.27%	11,419	10,161	(1,258)	-11.02%
$200,000 - $299,999	231	55,535,639	3,577,222	3,114,690	(462,532)	184	41	6	6	3	79.7%	17.7%	6.44%	5.61%	0.63%	0.62%	15,486	13,484	(2,002)	-12.93%
$300,000 - $399,999	68	23,526,286	1,692,307	1,480,254	(212,052)	57	11	0	1	0	83.8%	16.2%	7.19%	6.29%	0.30%	0.29%	24,887	21,768	(3,118)	-12.53%
$400,000 - $499,999	53	23,558,834	1,621,877	1,445,640	(176,237)	40	13	0	2	0	75.5%	24.5%	6.88%	6.14%	0.29%	0.29%	30,601	27,276	(3,325)	-10.87%
$500,000+	89	102,193,976	7,428,266	5,969,340	(1,458,927)	76	12	1	3	2	85.4%	13.5%	7.27%	5.84%	1.31%	1.19%	83,464	67,071	(16,392)	-19.64%
TOTALS	170,816	3,265,907,539	117,523,882	103,440,756	(14,083,126)	99,062	3,004	68,750	37,331	38,466	58.0%	1.8%	3.60%	3.17%	20.75%	20.60%	688	606	(82)	-11.98%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	33,011	76,769,875	119,383	58,603	(60,780)	48	0	32,965	24,786	25,027	0.1%	0.0%	0.16%	0.08%	0.02%	0.01%	4	2	(2)	-50.91%
2 ($4,949)	29,397	183,638,102	1,855,520	902,842	(952,678)	8,144	0	21,253	5,016	5,417	27.7%	0.0%	1.01%	0.49%	0.33%	0.18%	63	31	(32)	-51.34%
3 ($8,581)	24,668	261,800,241	4,178,145	2,523,819	(1,654,326)	18,187	4	6,477	3,531	3,751	73.7%	0.0%	1.60%	0.96%	0.74%	0.50%	169	102	(67)	-39.59%
4 ($13,896)	21,684	332,683,367	7,052,950	5,162,433	(1,890,516)	18,288	13	3,383	1,813	1,984	84.3%	0.1%	2.12%	1.55%	1.25%	1.03%	325	238	(87)	-26.80%
5 ($19,422)	18,688	384,803,325	10,799,921	9,321,072	(1,478,849)	17,123	43	1,522	885	968	91.6%	0.2%	2.81%	2.42%	1.91%	1.86%	578	499	(79)	-13.69%
6 ($25,447)	15,943	437,101,619	15,344,788	14,131,032	(1,213,757)	14,916	153	874	535	565	93.6%	1.0%	3.51%	3.23%	2.71%	2.81%	962	886	(76)	-7.91%
7 ($33,994)	12,031	436,283,294	17,944,912	16,584,621	(1,360,291)	10,801	445	785	311	325	89.8%	3.7%	4.11%	3.80%	3.17%	3.30%	1,492	1,378	(113)	-7.58%
8 ($43,668)	7,773	369,113,554	18,324,687	15,232,461	(1,092,226)	6,074	874	825	221	228	78.1%	11.2%	4.42%	4.13%	2.88%	3.03%	2,100	1,960	(141)	-6.69%
9 ($56,899)	4,292	270,699,011	12,687,050	12,170,895	(696,155)	3,033	786	473	137	126	70.7%	18.3%	4.75%	4.50%	2.27%	2.42%	2,998	2,836	(162)	-5.41%
10 ($77,161)	3,329	512,815,151	31,036,527	27,352,977	(3,683,550)	2,450	686	193	96	77	73.8%	20.6%	6.05%	5.33%	5.48%	5.45%	9,323	8,217	(1,107)	-11.87%
10A ($77,161)	1,042	84,141,331	4,255,968	4,009,747	(246,220)	732	228	82	28	25	70.2%	21.9%	5.06%	4.77%	0.75%	0.80%	4,084	3,848	(236)	-5.79%
10B ($97,819)	1,028	102,395,429	5,320,352	4,984,253	(336,099)	722	237	69	33	31	70.2%	23.1%	5.20%	4.87%	0.94%	0.99%	5,175	4,848	(327)	-6.32%
10C ($120,652)	1,259	326,278,381	21,460,208	18,358,976	(3,101,231)	996	221	42	35	21	79.1%	17.6%	6.58%	5.83%	3.79%	3.66%	17,045	14,582	(2,463)	-14.45%
TOTALS	170,816	3,265,907,539	117,523,882	103,440,756	(14,083,126)	99,062	3,004	68,750	37,331	38,466	58.0%	1.8%	3.60%	3.17%	20.75%	20.60%	688	606	(82)	-11.98%

Martz Tax Reform Proposal
Married Filing Jointly Households - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	941	909,011	19,430	11,560	(7,870)	16	0	925	913	920	1.7%	0.0%	2.14%	1.27%	0.00%	0.00%	21	12	(8)	0.00%
$ 2,000 - $ 3,999	1,121	3,409,016	4,933	3,266	(1,668)	14	0	1,107	1,093	1,096	1.2%	0.0%	0.14%	0.10%	0.00%	0.00%	4	3	(1)	0.00%
$ 4,000 - $ 5,999	1,467	7,417,073	14,193	9,068	(5,126)	36	0	1,431	1,405	1,418	2.5%	0.0%	0.19%	0.12%	0.00%	0.00%	10	6	(3)	0.00%
$ 6,000 - $ 7,999	1,947	13,713,159	16,618	10,878	(5,740)	33	0	1,914	1,714	1,732	1.7%	0.0%	0.12%	0.08%	0.00%	0.00%	9	6	(3)	-34.54%
$ 8,000 - $ 9,999	2,432	21,954,000	42,410	25,861	(16,549)	82	0	2,350	1,860	1,879	3.4%	0.0%	0.19%	0.12%	0.01%	0.01%	17	11	(7)	-39.02%
$ 10,000 - $ 11,999	3,052	33,616,042	93,883	50,044	(43,839)	373	0	2,679	1,967	2,004	12.2%	0.0%	0.28%	0.15%	0.02%	0.01%	31	16	(14)	-46.70%
$ 12,000 - $ 13,999	3,253	42,378,491	203,729	117,838	(85,891)	816	0	2,437	1,683	1,731	25.1%	0.0%	0.48%	0.28%	0.04%	0.02%	63	36	(26)	-42.16%
$ 14,000 - $ 15,999	3,451	51,714,607	308,421	189,710	(118,711)	1,156	1	2,294	1,634	1,685	33.5%	0.0%	0.60%	0.37%	0.05%	0.04%	89	55	(34)	-38.49%
$ 16,000 - $ 17,999	3,401	57,643,934	432,101	283,319	(148,783)	1,436	0	1,965	1,355	1,406	42.2%	0.0%	0.75%	0.49%	0.08%	0.06%	127	83	(44)	-34.43%
$ 18,000 - $ 19,999	3,464	65,733,427	594,224	411,411	(182,814)	1,748	0	1,716	1,149	1,202	50.5%	0.0%	0.90%	0.63%	0.10%	0.08%	172	119	(53)	-30.77%
$ 20,000 - $ 24,999	7,867	176,476,262	2,142,348	1,631,350	(510,999)	4,981	7	2,879	1,901	2,024	63.3%	0.1%	1.21%	0.92%	0.38%	0.32%	272	207	(65)	-23.85%
$ 25,000 - $ 29,999	6,814	187,172,250	3,358,391	2,854,768	(503,625)	5,367	10	1,437	993	1,070	78.8%	0.1%	1.79%	1.53%	0.59%	0.57%	493	419	(74)	-15.00%
$ 30,000 - $ 34,999	5,592	181,393,023	4,239,414	3,798,771	(440,643)	4,875	20	697	511	540	87.2%	0.4%	2.34%	2.09%	0.75%	0.76%	758	679	(79)	-10.39%
$ 35,000 - $ 39,999	4,802	179,791,785	5,048,140	4,603,656	(444,484)	4,298	26	478	358	378	89.5%	0.5%	2.81%	2.56%	0.89%	0.92%	1,051	959	(93)	-8.80%
$ 40,000 - $ 44,999	3,914	165,959,507	5,234,485	4,754,246	(480,239)	3,566	28	320	255	257	91.1%	0.7%	3.15%	2.86%	0.92%	0.95%	1,337	1,215	(123)	-9.17%
$ 45,000 - $ 49,999	3,223	152,869,012	5,255,994	4,713,958	(542,036)	2,933	40	250	218	219	91.0%	1.2%	3.44%	3.08%	0.93%	0.94%	1,631	1,463	(168)	-10.31%
$ 50,000 - $ 54,999	2,802	136,470,402	5,040,574	4,457,646	(582,928)	2,365	35	202	170	176	90.9%	1.3%	3.69%	3.27%	0.89%	0.89%	1,937	1,713	(224)	-11.56%
$ 55,000 - $ 59,999	2,173	124,775,707	5,012,247	4,380,175	(632,071)	1,983	41	149	125	122	91.3%	1.9%	4.02%	3.51%	0.88%	0.87%	2,307	2,016	(291)	-12.61%
$ 60,000 - $ 64,999	1,815	113,324,705	4,751,297	4,089,494	(661,803)	1,638	42	135	105	108	90.2%	2.3%	4.19%	3.61%	0.84%	0.81%	2,618	2,253	(365)	-13.93%
$ 65,000 - $ 69,999	1,435	96,747,093	4,121,598	3,503,984	(617,614)	1,283	32	120	99	99	89.4%	2.2%	4.26%	3.62%	0.73%	0.70%	2,872	2,442	(430)	-14.98%
$ 70,000 - $ 74,999	1,121	81,149,549	3,563,370	2,997,805	(565,565)	1,002	34	85	74	74	89.4%	3.0%	4.39%	3.69%	0.63%	0.60%	3,179	2,674	(505)	-15.87%
$ 75,000 - $ 79,999	947	73,229,553	3,400,638	2,837,762	(562,876)	852	28	67	55	54	90.0%	3.0%	4.64%	3.88%	0.60%	0.57%	3,591	2,997	(594)	-16.55%
$ 80,000 - $ 89,999	1,367	115,843,299	5,647,086	4,652,032	(995,054)	1,206	70	91	65	61	88.2%	5.1%	4.88%	4.02%	1.00%	0.93%	4,131	3,403	(728)	-17.62%
$ 90,000 - $ 99,999	934	88,376,509	4,316,080	3,561,297	(754,782)	803	69	62	51	48	88.0%	7.4%	4.88%	4.03%	0.76%	0.71%	4,621	3,813	(808)	-17.49%
$100,000 - $109,999	832	66,132,761	3,417,926	2,823,874	(594,052)	537	52	43	35	35	85.0%	8.2%	5.17%	4.27%	0.60%	0.56%	5,408	4,468	(940)	-17.38%
$110,000 - $119,999	470	54,003,068	2,745,318	2,302,015	(443,303)	391	53	26	30	22	83.2%	11.3%	5.08%	4.26%	0.46%	0.46%	5,841	4,898	(943)	-16.15%
$120,000 - $129,999	388	48,367,509	2,617,123	2,205,710	(411,413)	327	39	22	19	18	84.3%	10.1%	5.41%	4.56%	0.46%	0.44%	6,745	5,685	(1,060)	-15.72%
$130,000 - $139,999	329	44,433,261	2,487,301	2,069,431	(417,870)	287	31	11	8	8	87.2%	9.4%	5.60%	4.66%	0.44%	0.41%	7,560	6,290	(1,270)	-16.80%
$140,000 - $149,999	222	32,115,599	1,768,670	1,463,682	(304,988)	190	21	11	12	12	85.6%	9.5%	5.51%	4.56%	0.31%	0.29%	7,967	6,593	(1,374)	-17.24%
$150,000 - $174,999	474	76,550,057	4,669,210	3,918,627	(750,584)	403	60	11	14	10	85.0%	12.7%	6.10%	5.12%	0.82%	0.78%	9,851	8,267	(1,584)	-16.08%
$175,000 - $199,999	341	63,643,496	3,861,753	3,235,070	(626,683)	302	28	11	12	11	88.6%	8.2%	6.07%	5.08%	0.68%	0.64%	11,325	9,487	(1,838)	-16.23%
$200,000 - $299,999	621	150,152,835	9,760,091	8,459,024	(1,301,068)	531	77	13	10	8	85.5%	12.4%	6.50%	5.63%	1.72%	1.68%	15,717	13,622	(2,095)	-13.33%
$300,000 - $399,999	267	92,599,484	6,442,550	5,644,638	(797,912)	230	34	3	7	3	86.1%	12.7%	6.96%	6.10%	1.14%	1.12%	24,129	21,141	(2,988)	-12.39%
$400,000 - $499,999	133	59,518,332	4,182,879	3,762,526	(420,352)	110	22	1	1	1	82.7%	16.5%	7.03%	6.32%	0.74%	0.75%	31,450	28,290	(3,161)	-10.05%
$500,000+	246	338,744,706	21,796,874	18,996,766	(2,800,108)	200	40	6	12	7	81.3%	16.3%	6.43%	5.61%	3.85%	3.78%	88,605	77,223	(11,383)	-12.85%
TOTALS	73,258	3,198,328,524	126,611,303	108,831,257	(17,780,046)	46,370	940	25,948	19,913	20,436	63.3%	1.3%	3.96%	3.40%	22.35%	21.68%	1,728	1,486	(243)	-14.04%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,236	5,038,350	24,883	15,113	(9,771)	32	0	2,204	2,177	2,187	1.4%	0.0%	0.49%	0.30%	0.00%	0.00%	11	7	(4)	0.00%
2 ($4,949)	3,689	24,095,029	37,976	24,641	(13,335)	80	0	3,609	3,283	3,319	2.2%	0.0%	0.16%	0.10%	0.01%	0.00%	10	7	(4)	-35.11%
3 ($8,581)	6,554	70,860,999	210,231	117,722	(92,508)	756	0	5,798	4,328	4,398	11.5%	0.0%	0.30%	0.17%	0.04%	0.02%	32	18	(14)	-44.00%
4 ($13,696)	8,320	128,192,500	825,772	518,880	(306,893)	2,978	1	5,341	3,738	3,862	35.8%	0.0%	0.64%	0.40%	0.15%	0.10%	99	62	(37)	-37.16%
5 ($19,422)	9,803	203,194,228	2,185,409	1,601,255	(584,155)	5,608	5	4,190	2,772	2,928	57.2%	0.1%	1.08%	0.79%	0.39%	0.32%	223	163	(60)	-26.73%
6 ($25,447)	10,580	291,730,839	5,226,406	4,452,369	(774,037)	8,272	16	2,292	1,578	1,691	78.2%	0.2%	1.79%	1.53%	0.92%	0.89%	494	421	(73)	-14.81%
7 ($33,994)	9,941	362,510,576	9,858,402	8,956,251	(902,151)	8,864	50	1,027	775	817	89.2%	0.5%	2.72%	2.47%	1.74%	1.78%	992	901	(91)	-9.15%
8 ($43,668)	8,177	390,835,000	13,577,351	12,150,742	(1,426,609)	7,465	95	617	527	534	91.3%	1.2%	3.47%	3.11%	2.40%	2.42%	1,660	1,486	(174)	-10.51%
9 ($58,699)	6,619	420,762,250	17,666,335	15,157,544	(2,508,792)	5,974	150	495	406	406	90.3%	2.3%	4.20%	3.60%	3.12%	3.02%	2,669	2,290	(379)	-14.20%
10 ($77,161)	7,339	1,301,108,753	76,998,537	65,836,741	(11,161,795)	6,341	623	375	329	294	86.4%	8.5%	5.92%	5.06%	13.59%	13.11%	10,492	8,971	(1,521)	-14.50%
10A ($77,161)	2,020	163,199,711	7,877,081	6,520,162	(1,356,919)	1,810	75	135	100	97	89.6%	3.7%	4.83%	4.00%	1.39%	1.30%	3,900	3,228	(672)	-17.23%
10B ($97,819)	2,160	215,448,690	10,748,636	8,894,912	(1,853,724)	1,840	177	143	124	114	85.2%	8.2%	4.99%	4.13%	1.90%	1.77%	4,976	4,118	(858)	-17.25%
10C ($120,652)	3,159	922,460,352	58,372,820	50,421,667	(7,951,152)	2,691	371	97	105	83	85.2%	11.7%	6.33%	5.47%	10.31%	10.04%	18,478	15,961	(2,517)	-13.62%
TOTALS	73,258	3,198,328,524	126,611,303	108,831,257	(17,780,046)	46,370	940	25,948	19,913	20,436	63.3%	1.3%	3.96%	3.40%	22.35%	21.68%	1,728	1,486	(243)	-14.04%

Martz Tax Reform Proposal
Percent Change in Average Tax Liability - Tax Year 2006
Income Bracket
500
300
175
140
120
100
80
70
60
50
40
30
20
16
12
8
4
0
Percent Change
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
-45%
-50%
-55%

1 of 1

MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

SUB COMMITTEE ON TAXATION ON SB 407

Call to Order: By **SEN. MIKE TAYLOR**, on March 12, 2003 at 11:10 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:
Sen. Mike Taylor (R) Chairman
Sen. Walter McNutt (R)
Sen. Jon Ellingson (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Others Present: Dan Dodds, Dept. of Revenue
Larry Finch, Dept. of Revenue

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Discussion On: SB 407

Larry Finch, Dept of Revenue, handed out **EXHIBIT(1)**- SB 407 Alternative Tax Reform Proposal - Summary Impacts by Filertype - TY2005.

The committee discussed the proposal at length with **Mr. Finch** responding to their questions.

SEN. WALT MCNUTT moved to accept the Alternative Tax Reform Proposal to SB 407. The motion carried unanimously.

After a brief discussion **SEN. MCNUTT moved to increase the accomodation tax to 5%. The motion carried unanimously.**

SEN. MCNUTT then moved to increase the rental car tax from 4% to 9%. The motion carried unanimously.

SEN. MCNUTT moved a 4% tax on alcoholic beverage sold by the drink. Motion carried with MCNUTT and TAYLOR voting aye and ELLINGSON voting no.

SEN. MCNUTT moved to tax recreational admissions, the motion carried unanimously.

SEN. MCNUTT then moved to tax sporting goods rental, the motion carried with MCNUTT and TAYLOR voting aye and ELLINGSON voting no.

SEN. MCNUTT moved do pass on tobacco products. CHAIRMAN TAYLOR stated he would like to look at moist tobacco products. **The motion carried unanimously.**

SEN. MCNUTT moved to tax cigarettes at 52 cents a package. The motion carried unanimously.

A discussion was held on the capital gains tax. **SEN. MCNUTT moved to drop it to 4.9% in 2006. The motion carried with MCNUTT and TAYLOR voting aye and ELLINGSON voting no.**

SEN. MCNUTT moved DO PASS on SB 407. He then withdrew his motion. SEN. ELLINGSON moved an amendment to SB 407 that would incorporate the Big Box Tax. SEN. ELLINGSON expressed his reasons for wanting to include the tax in SB407. **The motion failed with SEN. ELLINGSON voting aye and SEN. MCNUTT AND SEN. TAYLOR voting no.**

SEN. MCNUTT moved to adopt SB 407 as revised in whole. The motion carried with MCNUTT and TAYLOR voting aye and ELLINGSON voting no.

ADJOURNMENT

Adjournment: 12:05 P.M.

SEN. MIKE TAYLOR, Chairman

SHIRLEY HERRIN, Secretary

BD/SH

SENATE
TAXATION COMMITTEE
ROLL CALL

DATE March 12, , 2003

MEMBER	ASSIGNMENT	PRESENT	EXCUSED	ABSENT
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member	✓		
Sen. Jim Elliott	Member	✓		
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member	✓		
Sen. Walt McNutt	Member	✓		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member	✓		
Sen. Bob Story	Vice Chair	✓		

SB407 Alternative Tax Reform Proposal
Summary Impacts by Filertype - TY2005

	Single Filers	Head of Household	Married Joint	Married Separate	All Households
CL Tax	113,574,558	22,934,290	121,955,732	288,650,139	547,114,719
PL Tax	106,325,314	21,179,786	108,693,956	273,666,881	509,865,938
Change	(7,249,244)	(1,754,504)	(13,261,775)	(14,983,258)	(37,248,781)
No. of Hshlds.	170,816	33,199	73,258	101,176	378,449
Change in Ave. Liab.	$ (42)	$ (53)	$ (181)	$ (148)	$ (98)
Gainers	38,146	8,067	24,199	52,126	122,538
Losers	4,320	247	1,092	10,433	16,092
No Change	128,350	24,885	47,967	38,617	239,819
Total	170,816	33,199	73,258	101,176	378,449
No Tax - CL	37,470	7,084	20,081	2,379	67,014
No Tax - PL	38,460	7,136	20,553	3,281	69,430
Change	990	52	472	902	2,416

SUB
SENATE TAXATION
DATE Mar 12, 2003
EXHIBIT NO. 1
BILL NO. SB 407

14

SB407 Alternative Proposal - TY2004

0	2,300	2%	
2,300	4,600	3%	(23)
4,600	9,200	4%	(69)
9,200	13,800	5%	(161)
13,800	18,400	6%	(299)
18,400	23,000	7%	(483)
23,000	32,300	8%	(713)
32,300	46,100	9%	(1,036)
46,100	80,700	10%	(1,497)
80,700		11%	(2,304)

0	2,300	1%	
2,100	4,100	2%	-23
4,100	6,200	3%	-64
7,200	8,400	4%	-126
11,300	10,800	5%	-210
19,000	13,900	6%	-318
30,400		6.9%	-443

SB407 Alternative Proposal - TY2005

0	2,400	2%	
2,400	4,700	3%	(24)
4,700	9,500	4%	(71)
9,500	14,200	5%	(166)
14,200	19,000	6%	(308)
19,000	23,700	7%	(498)
23,700	33,200	8%	(735)
33,200	47,400	9%	(1,067)
47,400	83,000	10%	(1,541)
83,000		11%	(2,371)

0	2,400	1%	
2,100	4,200	2%	-24
4,100	6,400	3%	-66
7,200	8,600	4%	-130
11,300	11,100	5%	-216
19,000	14,300	6%	-327
30,400		6.9%	-456

SB407 Alternative Tax Reform Proposal
Percent Change in Average Tax Liability - Tax Year 2005
Income Bracket
500
300
175
140
120
100
80
70
60
50
40
30
20
16
12
8
4
0
Percent Change
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
-45%
-50%
-55%

SB407 Alternative Tax Reform Proposal
All Households - Tax Year 2005 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	15,233	17,050,627	19,273	11,348	(7,925)	23	0	15,210	15,162	15,172	0.2%	0.0%	0.11%	0.07%	0.00%	0.00%	1	1	(1)	-41.12%
$ 2,000 - $ 3,999	19,675	59,227,935	71,820	37,928	(33,893)	18	0	19,657	13,503	13,693	0.1%	0.0%	0.12%	0.06%	0.01%	0.01%	4	2	(2)	-47.19%
$ 4,000 - $ 5,999	19,151	95,502,559	547,515	279,822	(267,893)	57	0	19,094	5,833	6,089	0.3%	0.0%	0.57%	0.29%	0.10%	0.05%	29	15	(14)	-48.93%
$ 6,000 - $ 7,999	18,062	126,196,231	1,108,315	662,149	(446,165)	340	0	17,722	5,427	5,600	1.9%	0.0%	0.88%	0.52%	0.20%	0.13%	61	37	(25)	-40.26%
$ 8,000 - $ 9,999	16,977	152,501,624	1,596,290	1,046,759	(549,531)	6,381	0	10,596	4,516	4,666	37.6%	0.0%	1.05%	0.69%	0.29%	0.21%	94	62	(32)	-34.43%
$ 10,000 - $ 11,999	16,420	180,448,710	2,157,979	1,549,285	(608,694)	7,958	5	8,457	4,042	4,189	48.5%	0.0%	1.20%	0.86%	0.39%	0.30%	131	94	(37)	-28.21%
$ 12,000 - $ 13,999	16,187	210,451,238	2,946,040	2,304,471	(641,568)	6,203	4	9,980	3,184	3,342	38.3%	0.0%	1.40%	1.10%	0.54%	0.45%	182	142	(40)	-21.78%
$ 14,000 - $ 15,999	15,808	236,946,510	3,708,990	3,084,049	(624,941)	4,030	8	11,770	2,846	3,014	25.5%	0.1%	1.57%	1.30%	0.68%	0.60%	235	195	(40)	-16.85%
$ 16,000 - $ 17,999	14,972	254,441,679	4,488,245	3,956,904	(529,340)	3,217	11	11,744	2,186	2,337	21.5%	0.1%	1.76%	1.56%	0.82%	0.78%	300	264	(35)	-11.80%
$ 18,000 - $ 19,999	13,920	264,220,576	5,067,754	4,651,156	(416,598)	2,774	17	11,129	1,839	1,958	19.9%	0.1%	1.92%	1.76%	0.93%	0.91%	364	334	(30)	-8.22%
$ 20,000 - $ 24,999	29,457	660,158,142	14,454,667	13,816,749	(637,918)	5,862	72	23,523	3,022	3,350	19.9%	0.2%	2.19%	2.09%	2.64%	2.71%	491	469	(22)	-4.41%
$ 25,000 - $ 29,999	24,033	659,296,763	16,774,660	16,293,382	(481,278)	5,112	192	18,729	1,673	1,885	21.3%	0.8%	2.54%	2.47%	3.07%	3.20%	698	678	(20)	-2.87%
$ 30,000 - $ 34,999	20,556	666,950,915	19,220,533	18,615,662	(604,871)	6,236	298	14,022	917	1,052	30.3%	1.4%	2.88%	2.79%	3.51%	3.65%	935	906	(29)	-3.15%
$ 35,000 - $ 39,999	18,260	683,947,664	20,904,431	20,099,489	(804,941)	7,459	458	10,343	647	749	40.8%	2.5%	3.06%	2.94%	3.82%	3.94%	1,145	1,101	(44)	-3.85%
$ 40,000 - $ 44,999	16,359	694,339,301	22,434,698	21,507,033	(927,665)	7,812	630	7,917	442	496	47.8%	3.9%	3.23%	3.10%	4.10%	4.22%	1,371	1,315	(57)	-4.13%
$ 45,000 - $ 49,999	14,773	700,923,912	23,532,003	22,574,428	(957,575)	7,342	773	6,658	380	398	49.7%	5.2%	3.36%	3.22%	4.30%	4.43%	1,593	1,528	(65)	-4.07%
$ 50,000 - $ 54,999	13,088	686,482,354	24,118,178	23,096,570	(1,021,608)	6,671	864	5,553	273	306	51.0%	6.6%	3.51%	3.36%	4.41%	4.53%	1,843	1,765	(78)	-4.24%
$ 55,000 - $ 59,999	11,478	659,348,110	24,054,853	22,967,075	(1,087,778)	5,915	885	4,678	212	221	51.5%	7.7%	3.65%	3.48%	4.40%	4.50%	2,096	2,001	(95)	-4.52%
$ 60,000 - $ 64,999	10,389	648,773,702	24,587,055	23,411,753	(1,175,303)	5,471	1,032	3,886	171	182	52.7%	9.9%	3.79%	3.61%	4.49%	4.59%	2,367	2,254	(113)	-4.78%
$ 65,000 - $ 69,999	8,558	576,939,601	22,609,476	21,500,696	(1,108,780)	4,678	1,104	2,776	144	150	54.7%	12.9%	3.92%	3.73%	4.13%	4.22%	2,642	2,512	(130)	-4.90%
$ 70,000 - $ 74,999	7,092	513,554,247	20,676,144	19,648,538	(1,027,606)	4,099	1,049	1,944	114	117	57.8%	14.8%	4.03%	3.83%	3.78%	3.85%	2,915	2,771	(145)	-4.97%
$ 75,000 - $ 79,999	5,984	463,195,373	19,357,453	18,306,224	(1,051,229)	3,747	1,032	1,205	75	77	62.6%	17.2%	4.18%	3.95%	3.54%	3.59%	3,235	3,059	(176)	-5.43%
$ 80,000 - $ 89,999	8,493	719,012,218	31,222,619	29,504,841	(1,717,778)	5,417	1,709	1,367	112	108	63.8%	20.1%	4.34%	4.10%	5.71%	5.79%	3,676	3,474	(202)	-5.50%
$ 90,000 - $ 99,999	5,529	523,253,391	23,567,677	22,325,909	(1,241,768)	3,412	1,375	742	76	71	61.7%	24.9%	4.50%	4.27%	4.31%	4.38%	4,263	4,038	(225)	-5.27%
$100,000 - $109,999	3,561	373,102,425	17,427,236	16,529,763	(897,473)	2,212	929	420	55	59	62.1%	26.1%	4.67%	4.43%	3.19%	3.24%	4,894	4,642	(252)	-5.15%
$110,000 - $119,999	2,492	285,766,255	13,630,216	12,940,642	(689,574)	1,540	723	229	36	30	61.8%	29.0%	4.77%	4.53%	2.49%	2.54%	5,470	5,193	(277)	-5.06%
$120,000 - $129,999	1,772	221,206,141	10,904,817	10,261,432	(643,385)	1,132	512	128	30	30	63.9%	28.9%	4.93%	4.64%	1.99%	2.01%	6,154	5,791	(363)	-5.90%
$130,000 - $139,999	1,440	194,204,007	9,959,048	9,323,177	(635,872)	1,000	371	69	13	7	69.4%	25.8%	5.13%	4.80%	1.82%	1.83%	6,916	6,474	(442)	-6.38%
$140,000 - $149,999	1,043	150,964,794	7,832,565	7,302,563	(530,002)	699	293	51	14	14	67.0%	28.1%	5.19%	4.84%	1.43%	1.43%	7,510	7,001	(508)	-6.77%
$150,000 - $174,999	1,994	321,283,211	17,667,220	16,340,303	(1,326,917)	1,390	506	98	24	21	69.7%	25.4%	5.50%	5.09%	3.23%	3.20%	8,860	8,195	(665)	-7.51%
$175,000 - $199,999	1,344	251,423,161	14,137,594	12,994,103	(1,143,491)	976	313	55	20	17	72.6%	23.3%	5.62%	5.17%	2.58%	2.55%	10,519	9,668	(851)	-8.09%
$200,000 - $299,999	2,296	552,471,545	33,292,094	30,523,841	(2,768,254)	1,718	533	45	18	14	74.8%	23.2%	6.03%	5.52%	6.09%	5.99%	14,500	13,294	(1,206)	-8.32%
$300,000 - $399,999	668	298,554,452	19,639,294	17,761,599	(1,877,696)	688	170	10	8	3	79.3%	19.6%	6.58%	5.95%	3.58%	3.48%	22,626	20,483	(2,163)	-9.56%
$400,000 - $499,999	400	178,193,460	12,102,986	11,006,549	(1,096,438)	317	82	1	3	1	79.3%	20.5%	6.79%	6.18%	2.21%	2.16%	30,257	27,516	(2,741)	-9.06%
$500,000+	785	900,903,974	61,296,980	53,629,945	(7,667,035)	632	142	11	17	12	80.5%	18.1%	6.80%	5.95%	11.20%	10.52%	78,085	68,318	(9,767)	-12.51%
TOTALS	378,449	14,181,236,807	547,114,719	509,865,938	(37,248,781)	122,538	16,092	239,819	67,014	69,430	32.4%	4.3%	3.86%	3.60%	100.00%	100.00%	1,446	1,347	(98)	-6.81%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	37,845	88,462,369	137,511	71,919	(65,592)	44	0	37,801	29,486	29,734	0.1%	0.0%	0.16%	0.08%	0.03%	0.01%	4	2	(2)	-47.70%
2 ($4,949)	37,845	238,783,222	1,892,763	1,100,225	(792,538)	955	0	36,890	11,395	11,812	2.5%	0.0%	0.79%	0.46%	0.35%	0.22%	50	29	(21)	-41.67%
3 ($8,581)	37,845	403,885,977	4,837,557	3,466,277	(1,371,280)	17,609	7	20,229	9,226	9,557	46.5%	0.0%	1.20%	0.86%	0.88%	0.68%	128	92	(36)	-28.35%
4 ($13,896)	37,845	581,829,512	9,411,345	7,965,150	(1,446,195)	9,420	20	28,405	6,441	6,834	24.9%	0.1%	1.62%	1.37%	1.72%	1.56%	249	210	(38)	-15.37%
5 ($19,422)	37,845	782,304,874	16,133,201	15,177,220	(955,981)	7,501	72	30,272	4,427	4,817	19.8%	0.2%	2.06%	1.94%	2.95%	2.98%	426	401	(25)	-5.93%
6 ($25,447)	37,845	1,042,375,101	26,697,555	25,905,256	(792,299)	8,100	289	29,456	2,627	2,962	21.4%	0.8%	2.56%	2.49%	4.88%	5.08%	705	685	(21)	-2.97%
7 ($33,994)	37,845	1,383,401,057	41,996,343	40,439,988	(1,556,355)	14,920	905	22,020	1,366	1,575	39.4%	2.4%	3.04%	2.92%	7.68%	7.93%	1,110	1,069	(41)	-3.71%
8 ($43,668)	37,845	1,818,645,709	61,680,263	59,114,930	(2,565,334)	18,855	2,025	16,965	900	1,003	49.8%	5.4%	3.39%	3.25%	11.27%	11.59%	1,630	1,562	(68)	-4.16%
9 ($58,699)	37,845	2,419,798,946	92,809,660	88,354,609	(4,455,051)	20,360	4,107	13,378	646	675	53.8%	10.9%	3.84%	3.65%	16.96%	17.33%	2,452	2,335	(118)	-4.80%
10 ($77,161)	37,844	5,421,750,040	291,518,522	268,270,366	(23,248,156)	24,774	8,667	4,403	498	461	65.5%	22.9%	5.38%	4.95%	53.28%	52.62%	7,703	7,089	(614)	-7.97%
10A ($77,161)	12,615	1,019,006,810	43,461,335	41,057,390	(2,403,945)	7,992	2,327	2,296	157	160	63.4%	18.4%	4.27%	4.03%	7.94%	8.05%	3,445	3,255	(191)	-5.53%
10B ($97,819)	12,615	1,253,943,681	57,384,627	54,430,484	(2,954,143)	7,804	3,226	1,585	181	175	61.9%	25.6%	4.58%	4.34%	10.49%	10.68%	4,549	4,315	(234)	-5.15%
10C ($120,652)	12,614	3,148,799,549	190,672,560	172,782,491	(17,890,069)	8,978	3,114	522	160	126	71.2%	24.7%	6.06%	5.49%	34.85%	33.89%	15,118	13,698	(1,418)	-9.38%
TOTALS	378,449	14,181,236,807	547,114,719	509,865,938	(37,248,781)	122,538	16,092	239,819	67,014	69,430	32.4%	4.3%	3.86%	3.60%	100.00%	100.00%	1,446	1,347	(98)	-6.81%

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SB407 Alternative Tax Reform Proposal
Single Filers - Tax Year 2005 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	13,454	15,171,798	3,137	1,590	(1,547)	12	0	13,442	13,417	13,420	0.1%	0.0%	0.02%	0.01%	0.00%	0.00%	0	0	(0)	0.00%
$ 2,000 - $ 3,999	17,054	51,215,482	64,157	32,149	(32,008)	9	0	17,045	10,965	11,150	0.1%	0.0%	0.13%	0.06%	0.01%	0.01%	4	2	(2)	-49.89%
$ 4,000 - $ 5,999	15,695	78,086,648	527,111	266,382	(260,729)	34	0	15,661	2,671	2,907	0.2%	0.0%	0.68%	0.34%	0.10%	0.05%	34	17	(17)	-49.46%
$ 6,000 - $ 7,999	13,654	95,212,667	1,056,031	630,817	(425,214)	316	0	13,338	2,332	2,473	2.3%	0.0%	1.11%	0.66%	0.19%	0.12%	77	46	(31)	-40.27%
$ 8,000 - $ 9,999	11,797	105,821,576	1,434,011	950,455	(483,557)	6,218	0	5,579	1,929	2,038	52.7%	0.0%	1.36%	0.90%	0.26%	0.19%	122	81	(41)	-33.72%
$ 10,000 - $ 11,999	10,449	114,728,223	1,806,188	1,326,656	(479,532)	7,116	4	3,329	1,557	1,637	68.1%	0.0%	1.57%	1.16%	0.33%	0.26%	173	127	(46)	-26.55%
$ 12,000 - $ 13,999	9,783	127,054,257	2,261,938	1,821,887	(440,051)	4,091	3	5,689	1,098	1,170	41.8%	0.0%	1.78%	1.43%	0.41%	0.36%	231	186	(45)	-19.45%
$ 14,000 - $ 15,999	9,113	136,538,554	2,727,366	2,330,930	(396,435)	1,774	6	7,333	810	873	19.5%	0.1%	2.00%	1.71%	0.50%	0.46%	299	256	(44)	-14.54%
$ 16,000 - $ 17,999	8,347	141,766,791	3,176,106	2,889,442	(286,664)	1,320	10	7,017	537	582	15.8%	0.1%	2.24%	2.04%	0.58%	0.57%	381	346	(34)	-9.03%
$ 18,000 - $ 19,999	7,247	137,532,593	3,433,986	3,267,150	(166,836)	1,031	14	6,202	411	430	14.2%	0.2%	2.50%	2.38%	0.63%	0.64%	474	451	(23)	-4.86%
$ 20,000 - $ 24,999	13,915	311,406,877	9,090,405	9,016,947	(73,458)	1,473	59	12,383	578	622	10.6%	0.4%	2.92%	2.90%	1.66%	1.77%	653	648	(5)	-0.81%
$ 25,000 - $ 29,999	10,057	275,344,556	9,313,177	9,305,491	(7,686)	749	162	9,146	338	345	7.4%	1.6%	3.38%	3.38%	1.70%	1.83%	926	925	(1)	-0.08%
$ 30,000 - $ 34,999	7,577	245,203,178	9,351,587	9,219,706	(131,881)	1,747	242	5,588	210	219	23.1%	3.2%	3.81%	3.76%	1.71%	1.81%	1,234	1,217	(17)	-1.41%
$ 35,000 - $ 39,999	5,572	208,350,516	8,423,437	8,190,617	(232,820)	2,534	353	2,685	143	148	45.5%	6.3%	4.04%	3.93%	1.54%	1.61%	1,512	1,470	(42)	-2.76%
$ 40,000 - $ 44,999	4,181	177,101,096	7,356,337	7,130,397	(225,940)	2,251	486	1,444	117	120	53.8%	11.6%	4.15%	4.03%	1.34%	1.40%	1,759	1,705	(54)	-3.07%
$ 45,000 - $ 49,999	3,098	146,571,533	6,239,344	6,071,091	(168,253)	1,649	545	904	82	82	53.2%	17.6%	4.26%	4.14%	1.14%	1.19%	2,014	1,960	(54)	-2.70%
$ 50,000 - $ 54,999	2,228	116,716,160	5,133,138	5,003,432	(129,707)	1,218	477	533	54	57	54.7%	21.4%	4.40%	4.29%	0.94%	0.98%	2,304	2,246	(58)	-2.53%
$ 55,000 - $ 59,999	1,529	87,747,768	3,918,242	3,821,754	(96,488)	817	375	337	46	41	53.4%	24.5%	4.47%	4.36%	0.72%	0.75%	2,563	2,500	(63)	-2.46%
$ 60,000 - $ 64,999	1,209	75,405,888	3,480,496	3,395,395	(85,101)	676	303	230	35	30	55.9%	25.1%	4.62%	4.50%	0.64%	0.67%	2,879	2,808	(70)	-2.45%
$ 65,000 - $ 69,999	898	60,470,911	2,790,133	2,734,028	(56,105)	506	257	135	30	29	56.3%	28.6%	4.61%	4.52%	0.51%	0.54%	3,107	3,045	(62)	-2.01%
$ 70,000 - $ 74,999	608	43,993,772	2,050,880	2,011,328	(39,552)	359	170	79	21	17	59.0%	28.0%	4.66%	4.57%	0.37%	0.39%	3,373	3,308	(65)	-1.93%
$ 75,000 - $ 79,999	504	39,037,896	1,893,617	1,839,048	(54,569)	295	148	61	8	6	58.5%	29.4%	4.85%	4.71%	0.35%	0.36%	3,757	3,649	(108)	-2.88%
$ 80,000 - $ 89,999	683	57,686,223	2,821,671	2,746,187	(75,484)	418	199	66	22	17	61.2%	29.1%	4.89%	4.76%	0.52%	0.54%	4,131	4,021	(111)	-2.68%
$ 90,000 - $ 99,999	448	42,394,323	2,106,186	2,034,206	(71,979)	268	129	51	14	12	59.8%	28.8%	4.97%	4.80%	0.38%	0.40%	4,701	4,541	(161)	-3.42%
$100,000 - $109,999	321	33,638,309	1,666,004	1,590,547	(75,457)	210	83	28	12	11	65.4%	25.9%	4.95%	4.73%	0.30%	0.31%	5,190	4,955	(235)	-4.53%
$110,000 - $119,999	207	23,839,771	1,274,698	1,180,385	(94,313)	146	51	10	3	4	70.5%	24.6%	5.35%	4.95%	0.23%	0.23%	6,158	5,702	(456)	-7.40%
$120,000 - $129,999	160	19,971,735	1,092,810	1,000,955	(91,855)	116	32	12	6	7	72.5%	20.0%	5.47%	5.01%	0.20%	0.20%	6,830	6,256	(574)	-8.41%
$130,000 - $139,999	126	17,051,872	926,961	849,784	(77,177)	99	27	0	3	0	78.6%	21.4%	5.44%	4.98%	0.17%	0.17%	7,357	6,744	(613)	-8.33%
$140,000 - $149,999	116	16,815,122	948,102	872,664	(75,437)	86	27	3	1	1	74.1%	23.3%	5.64%	5.19%	0.17%	0.17%	8,173	7,523	(650)	-7.96%
$150,000 - $174,999	210	33,916,676	1,961,399	1,748,375	(213,024)	161	42	7	3	3	76.7%	20.0%	5.78%	5.15%	0.36%	0.34%	9,340	8,326	(1,014)	-10.86%
$175,000 - $199,999	135	25,300,033	1,479,930	1,339,426	(140,505)	97	33	5	5	4	71.9%	24.4%	5.85%	5.29%	0.27%	0.26%	10,962	9,922	(1,041)	-9.49%
$200,000 - $299,999	231	55,535,639	3,449,238	3,049,006	(400,232)	180	45	6	6	3	77.9%	19.5%	6.21%	5.49%	0.63%	0.60%	14,932	13,199	(1,733)	-11.60%
$300,000 - $399,999	68	23,526,286	1,627,355	1,441,320	(188,035)	56	12	0	1	0	82.4%	17.6%	6.92%	6.13%	0.30%	0.28%	23,932	21,196	(2,736)	-11.43%
$400,000 - $499,999	53	23,558,834	1,563,277	1,411,639	(151,638)	39	14	0	2	0	73.6%	26.4%	6.64%	5.99%	0.29%	0.28%	29,496	26,635	(2,861)	-9.70%
$500,000+	89	102,193,976	7,126,103	5,804,129	(1,321,974)	75	12	2	3	2	84.3%	13.5%	6.97%	5.68%	1.30%	1.14%	80,069	65,215	(14,854)	-18.55%
TOTALS	170,816	3,265,907,539	113,574,558	106,325,314	(7,249,244)	38,146	4,320	########	37,470	38,460	22.3%	2.5%	3.48%	3.26%	20.76%	20.85%	665	622	(42)	-6.38%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	33,011	76,769,875	112,871	55,899	(56,971)	22	0	32,989	24,794	25,027	0.1%	0.0%	0.15%	0.07%	0.02%	0.01%	3	2	(2)	-50.47%
2 ($4,949)	29,397	183,838,102	1,796,792	1,041,798	(754,994)	890	0	28,507	5,046	5,406	3.0%	0.0%	0.98%	0.57%	0.33%	0.20%	61	35	(26)	-42.02%
3 ($8,581)	24,668	261,800,241	4,058,376	2,963,168	(1,095,208)	15,765	6	8,897	3,606	3,797	63.9%	0.0%	1.55%	1.13%	0.74%	0.58%	165	120	(44)	-26.99%
4 ($13,896)	21,684	332,683,367	6,838,163	5,956,160	(882,003)	4,137	16	17,531	1,842	1,988	19.1%	0.1%	2.06%	1.79%	1.25%	1.17%	315	275	(41)	-12.90%
5 ($19,422)	18,688	384,803,325	10,477,326	10,224,443	(252,885)	2,282	58	16,348	901	959	12.2%	0.3%	2.72%	2.66%	1.92%	2.01%	561	547	(14)	-2.41%
6 ($25,447)	15,943	437,101,619	14,841,869	14,796,632	(45,237)	1,240	247	14,456	538	558	7.8%	1.5%	3.40%	3.39%	2.71%	2.90%	931	928	(3)	-0.30%
7 ($33,994)	12,031	436,283,294	17,421,110	17,008,825	(412,285)	4,981	708	6,342	307	319	41.4%	5.9%	3.99%	3.90%	3.18%	3.34%	1,448	1,414	(34)	-2.37%
8 ($43,668)	7,773	369,113,554	15,782,593	15,339,129	(443,464)	4,214	1,318	2,241	214	218	54.2%	17.0%	4.28%	4.16%	2.88%	3.01%	2,030	1,973	(57)	-2.81%
9 ($58,699)	4,292	270,699,011	12,394,347	12,113,323	(281,024)	2,382	1,119	791	133	118	55.5%	26.1%	4.58%	4.47%	2.27%	2.38%	2,888	2,822	(65)	-2.27%
10 ($77,161)	3,329	512,815,151	29,851,110	26,825,937	(3,025,173)	2,233	848	248	89	70	67.1%	25.5%	5.82%	5.23%	5.46%	5.26%	8,967	8,058	(909)	-10.13%
10A ($77,161)	1,042	84,141,331	4,090,667	3,964,069	(126,598)	629	302	111	26	21	60.4%	29.0%	4.86%	4.71%	0.75%	0.78%	3,926	3,804	(121)	-3.09%
10B ($97,819)	1,028	102,395,429	5,118,316	4,919,269	(199,047)	641	288	99	31	28	62.4%	28.0%	5.00%	4.80%	0.94%	0.96%	4,979	4,785	(194)	-3.89%
10C ($120,652)	1,259	326,278,391	20,642,127	17,942,599	(2,699,528)	963	258	38	32	21	76.5%	20.5%	6.33%	5.50%	3.77%	3.52%	16,396	14,251	(2,144)	-13.08%
TOTALS	170,816	3,265,907,539	113,574,558	106,325,314	(7,249,244)	38,146	4,320	########	37,470	38,460	22.3%	2.5%	3.48%	3.26%	20.76%	20.85%	665	622	(42)	-6.38%

SB407 Alternative Tax Reform Proposal
Heads of Households - Tax Year 2005 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	600	741,661	440	400	(40)	0	0	600	599	599	0.0%	0.0%	0.06%	0.05%	0.00%	0.00%	1	1	(0)	0.00%
$ 2,000 - $ 3,999	1,264	3,888,569	658	464	(194)	2	0	1,262	1,260	1,261	0.2%	0.0%	0.02%	0.01%	0.00%	0.00%	1	0	(0)	0.00%
$ 4,000 - $ 5,999	1,681	8,459,733	2,535	1,619	(916)	2	0	1,679	1,603	1,605	0.1%	0.0%	0.03%	0.02%	0.00%	0.00%	2	1	(1)	-36.13%
$ 6,000 - $ 7,999	2,028	14,232,302	19,753	10,390	(9,363)	3	0	2,025	1,183	1,192	0.1%	0.0%	0.14%	0.07%	0.00%	0.00%	10	5	(5)	-47.40%
$ 8,000 - $ 9,999	2,303	20,715,045	90,335	49,700	(40,635)	24	0	2,279	584	595	1.0%	0.0%	0.44%	0.24%	0.02%	0.01%	39	22	(18)	-44.98%
$ 10,000 - $ 11,999	2,392	26,310,654	204,013	128,474	(75,539)	470	0	1,922	387	395	19.6%	0.0%	0.78%	0.49%	0.04%	0.03%	85	54	(32)	-37.03%
$ 12,000 - $ 13,999	2,447	31,822,937	380,334	271,527	(108,807)	1,360	0	1,087	268	274	55.6%	0.0%	1.20%	0.85%	0.07%	0.05%	155	111	(44)	-28.61%
$ 14,000 - $ 15,999	2,332	34,975,668	521,131	412,053	(109,078)	1,182	2	1,148	226	235	50.7%	0.1%	1.49%	1.18%	0.10%	0.08%	223	177	(47)	-20.93%
$ 16,000 - $ 17,999	2,244	38,127,950	663,313	561,247	(102,067)	677	0	1,567	159	160	30.2%	0.0%	1.74%	1.47%	0.12%	0.11%	296	250	(45)	-15.39%
$ 18,000 - $ 19,999	2,036	38,657,901	759,002	682,420	(76,582)	339	2	1,695	137	139	16.7%	0.1%	1.96%	1.77%	0.14%	0.13%	373	335	(38)	-10.09%
$ 20,000 - $ 24,999	3,930	87,769,913	1,962,342	1,879,308	(83,034)	385	4	3,541	274	278	9.8%	0.1%	2.24%	2.14%	0.36%	0.37%	499	478	(21)	-4.23%
$ 25,000 - $ 29,999	2,748	75,099,231	1,982,556	1,981,775	(781)	169	8	2,571	149	152	6.1%	0.3%	2.64%	2.64%	0.36%	0.39%	721	721	(0)	-0.04%
$ 30,000 - $ 34,999	1,964	63,573,819	1,971,205	1,971,916	710	123	11	1,830	89	89	6.3%	0.6%	3.10%	3.10%	0.36%	0.39%	1,004	1,004	0	0.04%
$ 35,000 - $ 39,999	1,401	52,305,786	1,813,414	1,776,665	(36,749)	374	23	1,004	71	71	26.7%	1.6%	3.47%	3.40%	0.33%	0.35%	1,294	1,268	(26)	-2.03%
$ 40,000 - $ 44,999	1,003	42,565,364	1,709,798	1,632,662	(77,136)	612	25	366	27	27	61.0%	2.5%	4.02%	3.84%	0.31%	0.32%	1,705	1,628	(77)	-4.51%
$ 45,000 - $ 49,999	693	32,831,353	1,373,298	1,282,038	(91,260)	533	19	141	24	24	76.9%	2.7%	4.18%	3.90%	0.25%	0.25%	1,982	1,850	(132)	-6.65%
$ 50,000 - $ 54,999	515	26,931,797	1,226,296	1,116,555	(109,741)	441	19	55	9	8	85.6%	3.7%	4.55%	4.15%	0.22%	0.22%	2,381	2,168	(213)	-8.95%
$ 55,000 - $ 59,999	384	22,037,270	1,036,655	917,345	(119,310)	339	11	34	14	13	88.3%	2.9%	4.70%	4.16%	0.19%	0.18%	2,700	2,389	(311)	-11.51%
$ 60,000 - $ 64,999	264	16,477,677	773,234	694,886	(78,347)	214	16	34	7	8	81.1%	6.1%	4.69%	4.22%	0.14%	0.14%	2,929	2,632	(297)	-10.13%
$ 65,000 - $ 69,999	206	13,863,891	704,145	631,113	(73,032)	177	18	11	2	2	85.9%	8.7%	5.08%	4.55%	0.13%	0.12%	3,418	3,064	(355)	-10.37%
$ 70,000 - $ 74,999	137	9,925,214	502,363	454,906	(47,457)	112	15	10	3	3	81.8%	10.9%	5.06%	4.58%	0.09%	0.09%	3,667	3,320	(346)	-9.45%
$ 75,000 - $ 79,999	111	8,579,369	461,332	414,813	(46,519)	97	11	3	0	0	87.4%	9.9%	5.38%	4.84%	0.08%	0.08%	4,156	3,737	(419)	-10.08%
$ 80,000 - $ 89,999	116	9,835,573	536,090	485,106	(50,984)	96	15	5	0	0	82.8%	12.9%	5.45%	4.93%	0.10%	0.10%	4,621	4,182	(440)	-9.51%
$ 90,000 - $ 99,999	89	8,424,443	443,075	398,049	(45,026)	74	11	4	5	3	83.1%	12.4%	5.26%	4.72%	0.08%	0.08%	4,978	4,472	(506)	-10.16%
$100,000 - $109,999	49	5,107,647	277,756	255,096	(22,660)	38	8	3	2	1	77.6%	16.3%	5.44%	4.99%	0.05%	0.05%	5,668	5,206	(462)	-8.16%
$110,000 - $119,999	38	4,350,443	252,240	217,367	(34,872)	34	4	0	0	0	89.5%	10.5%	5.80%	5.00%	0.05%	0.04%	6,638	5,720	(918)	-13.83%
$120,000 - $129,999	25	3,122,335	177,692	151,276	(26,416)	21	2	2	0	0	84.0%	8.0%	5.69%	4.84%	0.03%	0.03%	7,108	6,051	(1,057)	-14.87%
$130,000 - $139,999	30	4,032,876	229,690	209,328	(20,362)	24	3	3	1	1	80.0%	10.0%	5.70%	5.19%	0.04%	0.04%	7,656	6,978	(679)	-8.87%
$140,000 - $149,999	20	2,895,204	181,638	160,098	(21,540)	18	2	0	0	0	90.0%	10.0%	6.27%	5.53%	0.03%	0.03%	9,082	8,005	(1,077)	-11.86%
$150,000 - $174,999	36	5,857,478	387,156	337,046	(50,111)	30	4	2	0	0	83.3%	11.1%	6.61%	5.75%	0.07%	0.07%	10,754	9,362	(1,392)	-12.94%
$175,000 - $199,999	29	5,449,982	332,293	295,049	(37,244)	23	5	1	0	0	79.3%	17.2%	6.10%	5.41%	0.06%	0.06%	11,458	10,174	(1,284)	-11.21%
$200,000 - $299,999	53	12,566,640	829,328	724,497	(104,831)	47	6	0	0	0	88.7%	11.3%	6.60%	5.77%	0.15%	0.14%	15,648	13,670	(1,978)	-12.64%
$300,000 - $399,999	11	3,880,894	270,566	235,465	(35,101)	10	1	0	0	0	90.9%	9.1%	6.97%	6.07%	0.05%	0.05%	24,597	21,406	(3,191)	-12.97%
$400,000 - $499,999	6	2,747,514	211,711	184,888	(26,823)	6	0	0	0	0	100.0%	0.0%	7.71%	6.73%	0.04%	0.04%	35,285	30,815	(4,470)	-12.67%
$500,000+	14	10,522,240	846,904	654,245	7,341	11	2	1	1	1	78.6%	14.3%	8.15%	6.22%	0.12%	0.13%	46,207	46,732	524	1.13%
TOTALS	33,199	748,686,373	22,934,290	21,179,786	(1,754,504)	8,067	247	24,885	7,084	7,136	24.3%	0.7%	3.06%	2.83%	4.19%	4.15%	691	638	(53)	-7.65%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,083	5,540,614	1,097	864	(234)	2	0	2,081	2,078	2,079	0.1%	0.0%	0.02%	0.02%	0.00%	0.00%	1	0	(0)	-21.28%
2 ($4,949)	3,962	25,649,292	33,137	17,511	(15,626)	7	0	3,955	2,704	2,716	0.2%	0.0%	0.13%	0.07%	0.01%	0.00%	8	4	(4)	-47.16%
3 ($8,581)	5,433	58,276,921	447,098	285,731	(161,367)	1,051	0	4,382	990	1,011	19.3%	0.0%	0.77%	0.49%	0.08%	0.06%	82	53	(30)	-36.09%
4 ($13,896)	5,649	86,869,738	1,347,352	1,085,098	(262,254)	2,624	2	3,023	488	501	46.5%	0.0%	1.55%	1.25%	0.25%	0.21%	239	192	(46)	-19.46%
5 ($19,422)	5,323	109,709,677	2,295,730	2,135,869	(159,861)	702	6	4,615	374	378	13.2%	0.1%	2.09%	1.95%	0.42%	0.42%	431	401	(30)	-6.96%
6 ($25,447)	4,281	117,141,109	3,127,909	3,124,718	(3,191)	268	13	4,000	232	237	6.3%	0.3%	2.67%	2.67%	0.57%	0.61%	731	730	(1)	-0.10%
7 ($33,994)	3,014	108,826,213	3,722,093	3,660,188	(61,905)	660	38	2,316	131	130	21.9%	1.3%	3.42%	3.36%	0.68%	0.72%	1,235	1,214	(21)	-1.66%
8 ($43,668)	1,829	86,611,398	3,685,197	3,431,215	(253,982)	1,375	54	400	52	52	75.2%	3.0%	4.25%	3.96%	0.67%	0.67%	2,015	1,876	(139)	-6.89%
9 ($58,699)	1,001	62,913,969	3,053,596	2,729,498	(324,098)	852	60	89	26	26	85.1%	6.0%	4.85%	4.34%	0.56%	0.54%	3,051	2,727	(324)	-10.61%
10 ($77,161)	624	87,147,442	5,221,080	4,709,094	(511,986)	526	74	24	9	6	84.3%	11.9%	5.99%	5.40%	0.95%	0.92%	8,367	7,547	(820)	-9.81%
10A ($77,161)	201	16,144,584	860,769	779,987	(80,783)	170	24	7	0	0	84.6%	11.9%	5.33%	4.83%	0.16%	0.15%	4,282	3,881	(402)	-9.38%
10B ($97,819)	189	18,747,861	1,027,604	917,989	(109,615)	158	23	8	7	4	83.6%	12.2%	5.48%	4.90%	0.19%	0.18%	5,437	4,857	(580)	-10.67%
10C ($120,652)	234	52,254,997	3,332,708	3,011,119	(321,589)	198	27	9	2	2	84.6%	11.5%	6.38%	5.76%	0.61%	0.59%	14,242	12,868	(1,374)	-9.65%
TOTALS	33,199	748,686,373	22,934,290	21,179,786	(1,754,504)	8,067	247	24,885	7,084	7,136	24.3%	0.7%	3.06%	2.83%	4.19%	4.15%	691	638	(53)	-7.65%

SB407 Alternative Tax Reform Proposal
Married Filing Jointly Households - Tax Year 2005 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	941	909,011	14,880	8,995	(5,885)	8	0	933	917	922	0.9%	0.0%	1.64%	0.99%	0.00%	0.00%	16	10	(6)	0.00%
$ 2,000 - $ 3,999	1,121	3,409,016	3,447	2,571	(876)	6	0	1,115	1,097	1,099	0.5%	0.0%	0.10%	0.08%	0.00%	0.00%	3	2	(1)	0.00%
$ 4,000 - $ 5,999	1,467	7,417,073	10,919	7,637	(3,282)	19	0	1,448	1,409	1,421	1.3%	0.0%	0.15%	0.10%	0.00%	0.00%	7	5	(2)	0.00%
$ 6,000 - $ 7,999	1,947	13,713,159	13,190	9,327	(3,863)	18	0	1,929	1,725	1,741	0.9%	0.0%	0.10%	0.07%	0.00%	0.00%	7	5	(2)	-29.29%
$ 8,000 - $ 9,999	2,432	21,954,000	37,141	24,779	(12,363)	28	0	2,404	1,866	1,883	1.2%	0.0%	0.17%	0.11%	0.01%	0.00%	15	10	(5)	-33.29%
$ 10,000 - $ 11,999	3,052	33,616,042	86,533	53,358	(33,175)	159	0	2,893	1,975	2,014	5.2%	0.0%	0.26%	0.16%	0.02%	0.01%	28	17	(11)	-38.34%
$ 12,000 - $ 13,999	3,253	42,378,491	190,587	130,078	(60,489)	473	0	2,780	1,705	1,751	14.5%	0.0%	0.45%	0.31%	0.03%	0.03%	59	40	(19)	-31.74%
$ 14,000 - $ 15,999	3,451	51,714,607	289,525	211,374	(78,150)	714	0	2,737	1,675	1,725	20.7%	0.0%	0.56%	0.41%	0.05%	0.04%	84	61	(23)	-26.99%
$ 16,000 - $ 17,999	3,401	57,843,934	409,411	317,666	(91,745)	784	0	2,617	1,375	1,430	23.1%	0.0%	0.71%	0.55%	0.07%	0.06%	120	93	(27)	-22.41%
$ 18,000 - $ 19,999	3,464	65,733,427	565,553	462,459	(103,094)	787	0	2,677	1,177	1,223	22.7%	0.0%	0.86%	0.70%	0.10%	0.09%	163	134	(30)	-18.23%
$ 20,000 - $ 24,999	7,867	176,476,262	2,042,251	1,806,685	(235,566)	1,694	7	6,166	1,928	2,044	21.5%	0.1%	1.16%	1.02%	0.37%	0.35%	260	230	(30)	-11.53%
$ 25,000 - $ 29,999	6,814	187,172,250	3,150,099	3,003,846	(146,253)	1,164	11	5,639	1,036	1,107	17.1%	0.2%	1.68%	1.60%	0.58%	0.59%	462	441	(21)	-4.64%
$ 30,000 - $ 34,999	5,592	181,393,023	4,083,687	4,008,101	(75,586)	731	23	4,838	503	522	13.1%	0.4%	2.25%	2.21%	0.75%	0.79%	730	717	(14)	-1.85%
$ 35,000 - $ 39,999	4,802	179,791,785	4,876,198	4,775,209	(100,989)	866	32	3,904	350	369	18.0%	0.7%	2.71%	2.66%	0.89%	0.94%	1,015	994	(21)	-2.07%
$ 40,000 - $ 44,999	3,914	165,959,507	5,070,571	4,884,829	(185,742)	1,547	32	2,335	244	242	39.5%	0.8%	3.06%	2.94%	0.93%	0.96%	1,295	1,248	(47)	-3.66%
$ 45,000 - $ 49,999	3,223	152,869,012	5,098,738	4,806,466	(292,272)	1,853	47	1,323	213	211	57.5%	1.5%	3.34%	3.14%	0.93%	0.94%	1,582	1,491	(91)	-5.73%
$ 50,000 - $ 54,999	2,602	136,470,402	4,891,334	4,516,713	(374,621)	1,858	45	699	166	173	71.4%	1.7%	3.58%	3.31%	0.89%	0.89%	1,880	1,736	(144)	-7.66%
$ 55,000 - $ 59,999	2,173	124,775,707	4,861,988	4,411,914	(450,075)	1,713	50	410	123	119	78.8%	2.3%	3.90%	3.54%	0.89%	0.87%	2,237	2,030	(207)	-9.26%
$ 60,000 - $ 64,999	1,815	113,324,705	4,613,681	4,107,146	(506,535)	1,474	51	290	104	107	81.2%	2.8%	4.07%	3.62%	0.84%	0.81%	2,542	2,263	(279)	-10.98%
$ 65,000 - $ 69,999	1,435	96,747,093	4,001,058	3,507,598	(493,460)	1,179	38	218	94	93	82.2%	2.6%	4.14%	3.63%	0.73%	0.69%	2,786	2,444	(344)	-12.33%
$ 70,000 - $ 74,999	1,121	81,149,549	3,459,408	2,995,286	(464,122)	932	40	149	72	70	83.1%	3.6%	4.26%	3.69%	0.63%	0.59%	3,086	2,672	(414)	-13.42%
$ 75,000 - $ 79,999	947	73,229,553	3,295,966	2,823,738	(472,228)	807	36	104	52	50	85.2%	3.8%	4.50%	3.86%	0.60%	0.55%	3,480	2,982	(499)	-14.33%
$ 80,000 - $ 89,999	1,367	115,643,299	5,457,782	4,608,517	(849,265)	1,166	93	108	64	61	85.3%	6.8%	4.72%	3.99%	1.00%	0.90%	3,993	3,371	(621)	-15.56%
$ 90,000 - $ 99,999	934	88,376,509	4,163,303	3,515,527	(647,776)	780	78	76	51	48	83.5%	8.4%	4.71%	3.98%	0.76%	0.69%	4,457	3,764	(694)	-15.56%
$100,000 - $109,999	632	66,132,761	3,298,266	2,785,693	(512,573)	524	60	48	35	34	82.9%	9.5%	4.99%	4.21%	0.60%	0.55%	5,219	4,408	(811)	-15.54%
$110,000 - $119,999	470	54,003,068	2,648,983	2,271,533	(377,430)	378	59	33	29	20	80.4%	12.6%	4.91%	4.21%	0.48%	0.45%	5,636	4,833	(803)	-14.25%
$120,000 - $129,999	388	48,367,509	2,520,115	2,169,371	(350,743)	324	45	19	19	18	83.5%	11.6%	5.21%	4.49%	0.46%	0.43%	6,495	5,591	(904)	-13.92%
$130,000 - $139,999	329	44,433,261	2,403,200	2,040,953	(362,247)	277	37	15	8	6	84.2%	11.2%	5.41%	4.59%	0.44%	0.40%	7,305	6,204	(1,101)	-15.07%
$140,000 - $149,999	222	32,115,599	1,709,855	1,442,236	(267,619)	186	23	13	12	12	83.8%	10.4%	5.32%	4.49%	0.31%	0.28%	7,702	6,497	(1,205)	-15.65%
$150,000 - $174,999	474	76,550,057	4,502,169	3,841,373	(660,796)	398	61	15	14	10	84.0%	12.9%	5.88%	5.02%	0.82%	0.75%	9,498	8,104	(1,394)	-14.68%
$175,000 - $199,999	341	63,643,496	3,734,887	3,174,771	(560,116)	299	30	12	13	11	87.7%	8.8%	5.87%	4.99%	0.68%	0.62%	10,953	9,310	(1,643)	-15.00%
$200,000 - $299,999	621	150,152,635	9,428,244	8,297,760	(1,130,485)	520	91	10	10	6	83.7%	14.7%	6.28%	5.53%	1.72%	1.63%	15,182	13,362	(1,820)	-11.99%
$300,000 - $399,999	267	92,599,484	6,203,013	5,511,259	(691,754)	228	37	2	7	3	85.4%	13.9%	6.70%	5.95%	1.13%	1.08%	23,232	20,641	(2,591)	-11.15%
$400,000 - $499,999	133	59,518,332	4,014,120	3,662,869	(351,250)	109	23	1	1	1	82.0%	17.3%	6.74%	6.15%	0.73%	0.72%	30,181	27,540	(2,641)	-8.75%
$500,000+	246	338,744,706	20,805,670	18,496,320	(2,309,349)	196	43	7	12	7	79.7%	17.5%	6.14%	5.46%	3.80%	3.63%	84,576	75,188	(9,388)	-11.10%
TOTALS	73,258	3,198,328,524	121,955,732	108,693,956	(13,261,775)	24,199	1,092	47,967	20,081	20,553	33.0%	1.5%	3.81%	3.40%	22.29%	21.32%	1,665	1,484	(181)	-10.87%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,236	5,038,350	18,751	11,842	(6,909)	16	0	2,220	2,185	2,192	0.7%	0.0%	0.37%	0.24%	0.00%	0.00%	8	5	(3)	0.00%
2 ($4,949)	3,689	24,095,029	30,333	21,419	(8,914)	40	0	3,649	3,297	3,330	1.1%	0.0%	0.13%	0.09%	0.01%	0.00%	8	6	(2)	-29.39%
3 ($8,581)	6,554	70,860,999	193,288	124,577	(68,711)	340	0	6,214	4,352	4,424	5.2%	0.0%	0.27%	0.18%	0.04%	0.02%	29	19	(10)	-35.55%
4 ($13,896)	8,320	128,192,500	778,066	579,494	(198,572)	1,762	0	6,558	3,807	3,930	21.2%	0.0%	0.61%	0.45%	0.14%	0.11%	94	70	(24)	-25.52%
5 ($19,422)	9,803	203,194,228	2,081,267	1,783,873	(297,394)	2,191	5	7,607	2,831	2,974	22.4%	0.1%	1.02%	0.88%	0.38%	0.35%	212	182	(30)	-14.29%
6 ($25,447)	10,580	291,730,839	4,940,790	4,717,724	(223,066)	1,797	17	8,766	1,622	1,728	17.0%	0.2%	1.69%	1.62%	0.90%	0.93%	467	446	(21)	-4.51%
7 ($33,994)	9,941	362,510,576	9,522,827	9,320,152	(202,675)	1,784	60	8,097	753	781	17.9%	0.6%	2.63%	2.57%	1.74%	1.83%	958	938	(20)	-2.13%
8 ($43,668)	8,177	390,835,000	13,169,028	12,380,077	(788,950)	4,742	113	3,322	513	517	58.0%	1.4%	3.37%	3.17%	2.41%	2.43%	1,610	1,514	(96)	-5.99%
9 ($58,699)	6,619	420,762,250	17,146,994	15,207,685	(1,939,308)	5,362	183	1,074	396	392	81.0%	2.8%	4.08%	3.61%	3.13%	2.98%	2,591	2,298	(293)	-11.31%
10 ($77,161)	7,339	1,301,108,753	74,074,388	64,547,112	(9,527,276)	6,165	714	460	325	285	84.0%	9.7%	5.69%	4.96%	13.54%	12.66%	10,093	8,795	(1,298)	-12.86%
10A ($77,161)	2,020	163,199,711	7,620,432	6,468,735	(1,151,697)	1,741	102	177	98	94	86.2%	5.0%	4.67%	3.98%	1.39%	1.27%	3,772	3,202	(570)	-15.11%
10B ($97,819)	2,160	215,448,690	10,371,285	8,781,436	(1,589,849)	1,778	202	180	123	111	82.3%	9.4%	4.81%	4.08%	1.90%	1.72%	4,802	4,065	(736)	-15.33%
10C ($120,652)	3,159	922,460,352	56,082,671	49,296,941	(6,785,730)	2,646	410	103	106	80	83.8%	13.0%	6.08%	5.34%	10.25%	9.67%	17,753	15,605	(2,148)	-12.10%
TOTALS	73,258	3,198,328,524	121,955,732	108,693,956	(13,261,775)	24,199	1,092	47,967	20,081	20,553	33.0%	1.5%	3.81%	3.40%	22.29%	21.32%	1,665	1,484	(181)	-10.87%

SB407 Alternative Tax Reform Proposal
Married Filing Separately Households - Tax Year 2005 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	238	228,157	816	364	(453)	3	0	235	229	231	1.3%	0.0%	0.36%	0.16%	0.00%	0.00%	3	2	(2)	0.00%
$ 2,000 - $ 3,999	236	714,868	3,559	2,743	(816)	1	0	235	181	183	0.4%	0.0%	0.50%	0.38%	0.00%	0.00%	15	12	(3)	-22.92%
$ 4,000 - $ 5,999	308	1,539,105	6,950	3,984	(2,966)	2	0	306	150	156	0.6%	0.0%	0.45%	0.26%	0.00%	0.00%	23	13	(10)	-42.68%
$ 6,000 - $ 7,999	433	3,038,103	19,341	11,616	(7,725)	3	0	430	187	194	0.7%	0.0%	0.64%	0.38%	0.00%	0.00%	45	27	(18)	-39.94%
$ 8,000 - $ 9,999	445	4,011,003	34,802	21,826	(12,976)	111	0	334	137	150	24.9%	0.0%	0.87%	0.54%	0.01%	0.00%	78	49	(29)	-37.29%
$ 10,000 - $ 11,999	527	5,793,791	61,245	40,797	(20,448)	213	1	313	123	143	40.4%	0.2%	1.06%	0.70%	0.01%	0.01%	116	77	(39)	-33.39%
$ 12,000 - $ 13,999	704	9,195,553	113,201	80,979	(32,222)	279	1	424	113	147	39.6%	0.1%	1.23%	0.88%	0.02%	0.02%	161	115	(46)	-28.46%
$ 14,000 - $ 15,999	912	13,717,681	170,969	129,691	(41,277)	360	0	552	135	181	39.5%	0.0%	1.25%	0.95%	0.03%	0.03%	187	142	(45)	-24.14%
$ 16,000 - $ 17,999	980	16,703,004	237,414	188,549	(48,865)	436	1	543	115	165	44.5%	0.1%	1.42%	1.13%	0.04%	0.04%	242	192	(50)	-20.58%
$ 18,000 - $ 19,999	1,173	22,296,655	309,211	239,126	(70,085)	617	1	555	114	166	52.6%	0.1%	1.39%	1.07%	0.06%	0.05%	264	204	(60)	-22.67%
$ 20,000 - $ 24,999	3,745	84,505,090	1,359,669	1,113,808	(245,861)	2,310	2	1,433	242	406	61.7%	0.1%	1.61%	1.32%	0.25%	0.22%	363	297	(66)	-18.08%
$ 25,000 - $ 29,999	4,414	121,680,726	2,328,827	2,002,270	(326,557)	3,030	11	1,373	150	281	68.6%	0.2%	1.91%	1.65%	0.43%	0.39%	528	454	(74)	-14.02%
$ 30,000 - $ 34,999	5,423	176,780,895	3,814,053	3,415,939	(398,114)	3,635	22	1,766	115	222	67.0%	0.4%	2.16%	1.93%	0.70%	0.67%	703	630	(73)	-10.44%
$ 35,000 - $ 39,999	6,485	243,499,577	5,791,382	5,356,999	(434,383)	3,685	50	2,750	83	161	56.8%	0.8%	2.38%	2.20%	1.06%	1.05%	893	826	(67)	-7.50%
$ 40,000 - $ 44,999	7,261	308,713,334	8,297,992	7,859,145	(438,847)	3,402	87	3,772	54	107	46.9%	1.2%	2.69%	2.55%	1.52%	1.54%	1,143	1,082	(60)	-5.29%
$ 45,000 - $ 49,999	7,759	368,652,014	10,820,624	10,414,833	(405,791)	3,307	162	4,290	41	81	42.6%	2.1%	2.94%	2.83%	1.98%	2.04%	1,395	1,342	(52)	-3.75%
$ 50,000 - $ 54,999	7,743	406,363,995	12,887,410	12,459,870	(407,540)	3,154	323	4,266	44	68	40.7%	4.2%	3.17%	3.07%	2.35%	2.44%	1,662	1,609	(53)	-3.17%
$ 55,000 - $ 59,999	7,392	424,787,365	14,237,987	13,816,082	(421,905)	3,046	449	3,897	29	48	41.2%	6.1%	3.35%	3.25%	2.60%	2.71%	1,926	1,869	(57)	-2.96%
$ 60,000 - $ 64,999	7,101	443,565,432	15,719,645	15,214,325	(505,319)	3,107	662	3,332	25	37	43.8%	9.3%	3.54%	3.43%	2.87%	2.98%	2,214	2,143	(71)	-3.21%
$ 65,000 - $ 69,999	6,019	405,857,706	15,114,140	14,627,958	(486,182)	2,816	791	2,412	18	26	46.8%	13.1%	3.72%	3.60%	2.76%	2.87%	2,511	2,430	(81)	-3.22%
$ 70,000 - $ 74,999	5,226	378,485,712	14,663,494	14,187,019	(476,476)	2,696	824	1,706	18	27	51.6%	15.8%	3.87%	3.75%	2.68%	2.78%	2,806	2,715	(91)	-3.25%
$ 75,000 - $ 79,999	4,422	342,348,555	13,706,538	13,228,625	(477,913)	2,548	837	1,037	15	21	57.6%	18.9%	4.00%	3.86%	2.51%	2.59%	3,100	2,992	(108)	-3.49%
$ 80,000 - $ 89,999	6,327	535,847,123	22,407,076	21,665,031	(742,044)	3,737	1,402	1,188	26	30	59.1%	22.2%	4.18%	4.04%	4.10%	4.25%	3,542	3,424	(117)	-3.31%
$ 90,000 - $ 99,999	4,058	384,058,116	16,855,114	16,378,127	(476,987)	2,290	1,157	611	6	8	56.4%	28.5%	4.39%	4.26%	3.08%	3.21%	4,154	4,036	(118)	-2.83%
$100,000 - $109,999	2,559	268,223,708	12,185,210	11,898,428	(286,782)	1,440	778	341	6	13	56.3%	30.4%	4.54%	4.44%	2.23%	2.33%	4,762	4,650	(112)	-2.35%
$110,000 - $119,999	1,777	203,572,973	9,454,316	9,271,357	(182,959)	982	609	186	4	6	55.3%	34.3%	4.64%	4.55%	1.73%	1.82%	5,320	5,217	(103)	-1.94%
$120,000 - $129,999	1,199	149,744,562	7,114,201	6,939,830	(174,371)	671	433	95	5	5	56.0%	36.1%	4.75%	4.63%	1.30%	1.36%	5,933	5,788	(145)	-2.45%
$130,000 - $139,999	955	128,685,998	6,399,197	6,223,111	(176,085)	600	304	51	1	0	62.8%	31.8%	4.97%	4.84%	1.17%	1.22%	6,701	6,516	(184)	-2.75%
$140,000 - $149,999	685	99,138,869	4,992,970	4,827,565	(165,406)	409	241	35	1	1	59.7%	35.2%	5.04%	4.87%	0.91%	0.95%	7,289	7,048	(241)	-3.31%
$150,000 - $174,999	1,274	204,959,000	10,816,496	10,413,509	(402,986)	801	399	74	7	8	62.9%	31.3%	5.28%	5.08%	1.98%	2.04%	8,490	8,174	(316)	-3.73%
$175,000 - $199,999	839	157,029,650	8,590,484	8,184,857	(405,627)	557	245	37	2	2	66.4%	29.2%	5.47%	5.21%	1.57%	1.61%	10,239	9,755	(483)	-4.72%
$200,000 - $299,999	1,391	334,216,431	19,585,284	18,452,578	(1,132,705)	971	391	29	2	5	69.8%	28.1%	5.86%	5.52%	3.58%	3.62%	14,080	13,266	(814)	-5.78%
$300,000 - $399,999	522	178,547,788	11,538,362	10,573,555	(964,806)	394	120	8	0	0	75.5%	23.0%	6.46%	5.92%	2.11%	2.07%	22,104	20,256	(1,848)	-8.36%
$400,000 - $499,999	208	92,368,780	6,313,879	5,747,153	(566,726)	163	45	0	0	0	78.4%	21.6%	6.84%	6.22%	1.15%	1.13%	30,355	27,631	(2,725)	-8.98%
$500,000+	436	449,443,052	32,718,303	28,675,251	(4,043,052)	350	85	1	1	2	80.3%	19.5%	7.28%	6.38%	5.98%	5.62%	75,042	65,769	(9,273)	-12.36%
TOTALS	101,176	6,968,314,371	288,650,139	273,666,881	(14,983,258)	52,126	10,433	38,617	2,379	3,281	51.5%	10.3%	4.14%	3.93%	52.76%	53.67%	2,853	2,705	(148)	-5.19%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	515	1,113,530	4,793	3,314	(1,478)	4	0	511	431	436	0.8%	0.0%	0.43%	0.30%	0.00%	0.00%	9	6	(3)	-30.65%
2 ($4,949)	797	5,200,799	32,502	19,497	(13,005)	18	0	779	348	360	2.3%	0.0%	0.62%	0.37%	0.01%	0.00%	41	24	(18)	-40.01%
3 ($8,581)	1,190	12,947,816	138,794	92,800	(45,994)	453	1	736	278	325	38.1%	0.1%	1.07%	0.72%	0.03%	0.02%	117	78	(39)	-33.14%
4 ($13,896)	2,192	34,083,907	447,763	344,397	(103,366)	897	2	1,293	304	415	40.9%	0.1%	1.31%	1.01%	0.08%	0.07%	204	157	(47)	-23.09%
5 ($19,422)	4,031	84,597,644	1,278,876	1,033,035	(245,841)	2,326	3	1,702	321	506	57.7%	0.1%	1.51%	1.22%	0.23%	0.20%	317	256	(61)	-19.22%
6 ($25,447)	7,041	196,401,534	3,786,987	3,266,182	(520,805)	4,795	12	2,234	235	439	68.1%	0.2%	1.93%	1.66%	0.69%	0.64%	538	464	(74)	-13.75%
7 ($33,994)	12,859	475,780,974	11,330,313	10,450,823	(879,490)	7,495	99	5,265	175	345	58.3%	0.8%	2.38%	2.20%	2.07%	2.05%	881	813	(68)	-7.76%
8 ($43,668)	20,066	972,085,757	29,043,446	27,964,508	(1,078,938)	8,524	540	11,002	121	216	42.5%	2.7%	2.99%	2.88%	5.31%	5.48%	1,447	1,394	(54)	-3.71%
9 ($58,699)	25,933	1,665,423,716	60,214,723	58,304,103	(1,910,620)	11,764	2,745	11,424	91	139	45.4%	10.6%	3.62%	3.50%	11.01%	11.44%	2,322	2,248	(74)	-3.17%
10 ($77,161)	26,552	3,520,678,694	182,371,943	172,188,222	(10,183,721)	15,850	7,031	3,671	75	100	59.7%	26.5%	5.18%	4.89%	33.33%	33.77%	6,868	6,485	(384)	-5.58%
10A ($77,161)	9,352	755,521,184	30,889,467	29,844,599	(1,044,867)	5,452	1,899	2,001	35	45	58.3%	20.3%	4.09%	3.95%	5.65%	5.85%	3,303	3,191	(112)	-3.38%
10B ($97,819)	9,238	917,351,701	40,867,422	39,811,790	(1,055,632)	5,227	2,713	1,298	20	32	56.6%	29.4%	4.45%	4.34%	7.47%	7.81%	4,424	4,310	(114)	-2.58%
10C ($120,652)	7,962	1,847,805,809	110,615,054	102,531,833	(8,083,222)	5,171	2,419	372	20	23	64.9%	30.4%	5.99%	5.55%	20.22%	20.11%	13,893	12,878	(1,015)	-7.31%
TOTALS	101,176	6,968,314,371	288,650,139	273,666,881	(14,983,258)	52,126	10,433	38,617	2,379	3,281	51.5%	10.3%	4.14%	3.93%	52.76%	53.67%	2,853	2,705	(148)	-5.19%

SB407 Alternative Tax Reform Proposal
Retiree Households - Tax Year 2005 Impacts

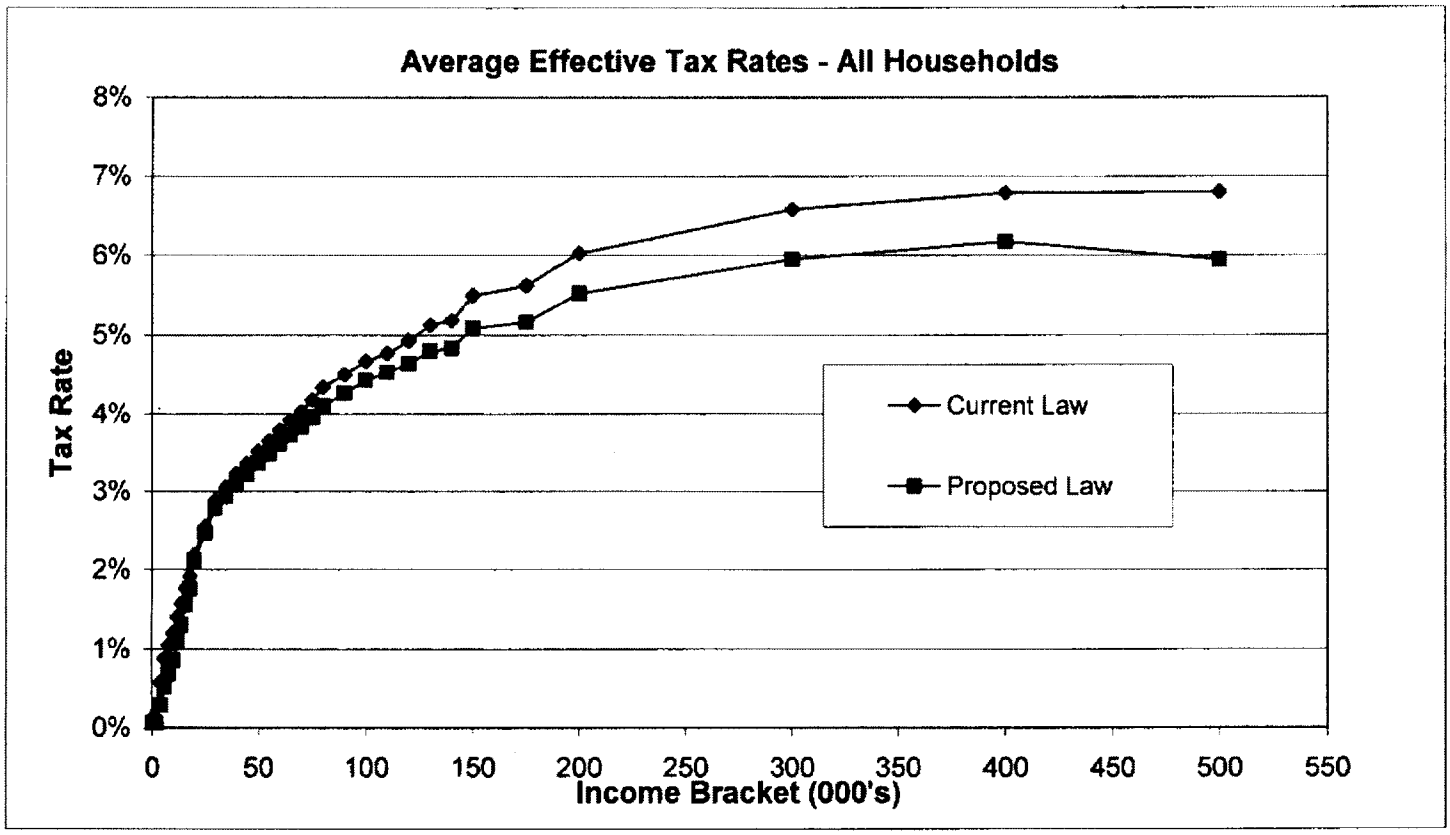
IMPACTS BY INCOME BRACKET

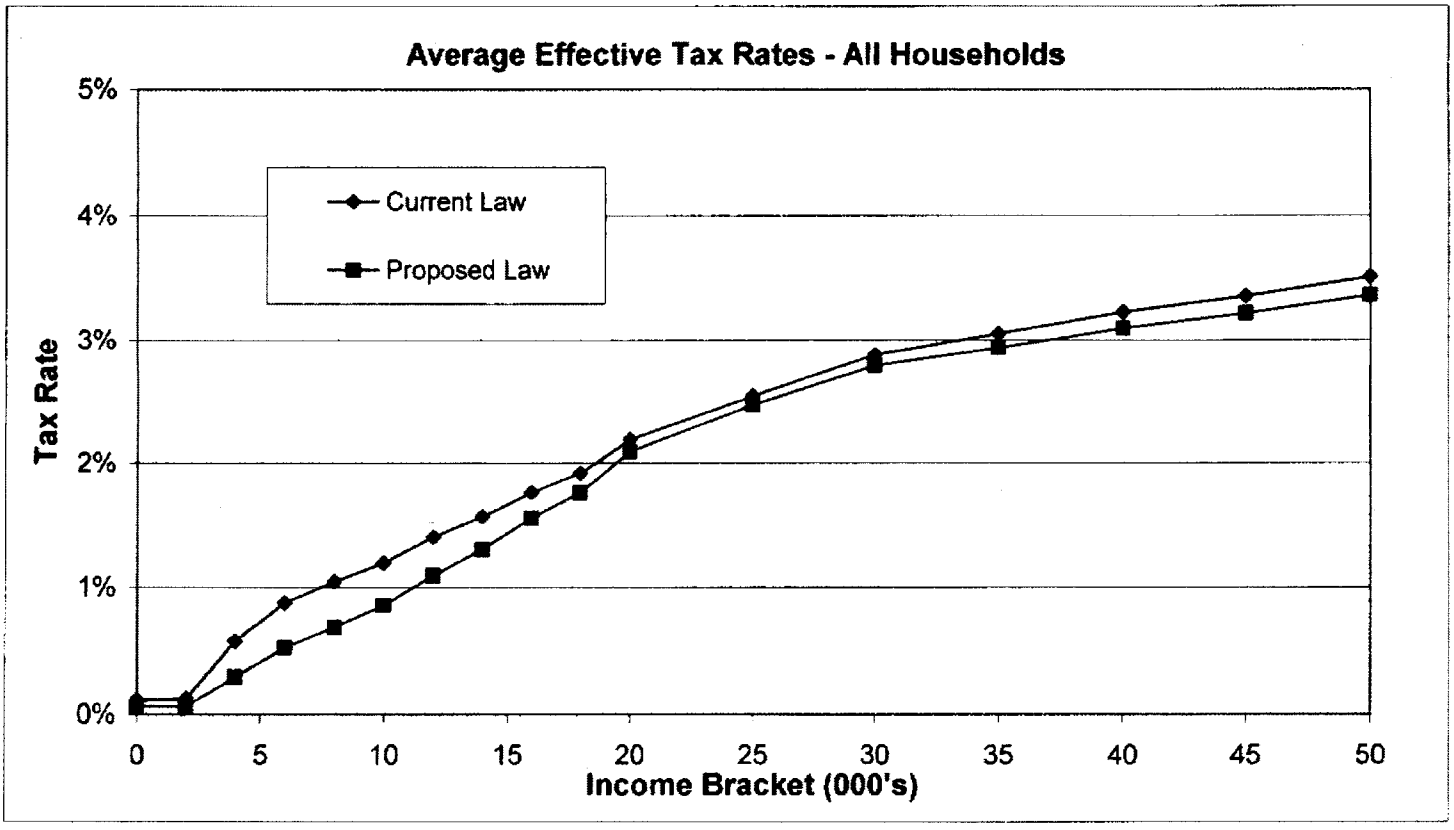
Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	608	718,777	7,773	4,493	(3,280)	3	0	605	598	598	0.5%	0.0%	1.08%	0.63%	0.00%	0.00%	13	7	(5)	0.00%
$ 2,000 - $ 3,999	1,219	3,736,074	2,814	1,746	(1,068)	2	0	1,217	1,140	1,144	0.2%	0.0%	0.08%	0.05%	0.00%	0.00%	2	1	(1)	-37.94%
$ 4,000 - $ 5,999	1,818	9,189,292	10,119	5,411	(4,708)	4	0	1,814	1,583	1,589	0.2%	0.0%	0.11%	0.06%	0.00%	0.00%	6	3	(3)	-46.52%
$ 6,000 - $ 7,999	2,564	17,981,977	26,937	15,487	(11,449)	17	0	2,547	2,074	2,096	0.7%	0.0%	0.15%	0.09%	0.00%	0.00%	11	6	(4)	-42.50%
$ 8,000 - $ 9,999	3,191	28,732,670	71,925	43,747	(28,178)	151	0	3,040	2,107	2,153	4.7%	0.0%	0.25%	0.15%	0.01%	0.01%	23	14	(9)	-39.16%
$ 10,000 - $ 11,999	3,511	38,626,556	124,260	79,526	(44,734)	348	0	3,163	2,184	2,233	9.9%	0.0%	0.32%	0.21%	0.02%	0.02%	35	23	(13)	-36.00%
$ 12,000 - $ 13,999	3,573	46,501,748	208,462	142,336	(66,127)	479	0	3,094	1,773	1,847	13.4%	0.0%	0.45%	0.31%	0.04%	0.03%	58	40	(19)	-31.72%
$ 14,000 - $ 15,999	3,747	56,144,126	328,225	242,553	(85,672)	703	2	3,042	1,625	1,715	18.8%	0.1%	0.58%	0.43%	0.06%	0.05%	88	65	(23)	-26.10%
$ 16,000 - $ 17,999	3,544	60,242,837	457,211	359,557	(97,654)	808	4	2,732	1,241	1,301	22.8%	0.1%	0.76%	0.60%	0.08%	0.07%	129	101	(28)	-21.36%
$ 18,000 - $ 19,999	3,390	64,328,363	566,092	466,749	(99,343)	860	7	2,523	1,053	1,113	25.4%	0.2%	0.88%	0.73%	0.10%	0.09%	167	138	(29)	-17.55%
$ 20,000 - $ 24,999	7,301	163,705,951	1,899,777	1,666,035	(233,742)	2,044	24	5,233	1,619	1,776	28.0%	0.3%	1.16%	1.02%	0.35%	0.33%	260	228	(32)	-12.30%
$ 25,000 - $ 29,999	6,027	165,372,241	2,801,833	2,644,229	(157,603)	1,566	86	4,375	774	877	26.0%	1.4%	1.69%	1.60%	0.51%	0.52%	465	439	(26)	-5.63%
$ 30,000 - $ 34,999	5,198	168,572,419	3,854,597	3,722,013	(132,584)	1,529	153	3,516	369	437	29.4%	2.9%	2.29%	2.21%	0.70%	0.73%	742	716	(26)	-3.44%
$ 35,000 - $ 39,999	4,744	177,841,411	4,593,781	4,436,299	(157,482)	1,770	236	2,738	242	289	37.3%	5.0%	2.58%	2.49%	0.84%	0.87%	968	935	(33)	-3.43%
$ 40,000 - $ 44,999	4,361	185,070,486	5,277,174	5,106,919	(170,255)	1,906	339	2,116	141	170	43.7%	7.8%	2.85%	2.76%	0.96%	1.00%	1,210	1,171	(39)	-3.23%
$ 45,000 - $ 49,999	4,006	190,159,191	5,859,220	5,689,252	(169,968)	1,844	404	1,758	110	122	46.0%	10.1%	3.08%	2.99%	1.07%	1.12%	1,463	1,420	(42)	-2.90%
$ 50,000 - $ 54,999	3,683	193,420,239	6,329,425	6,106,253	(223,172)	1,844	455	1,384	100	109	50.1%	12.4%	3.27%	3.16%	1.16%	1.20%	1,719	1,658	(61)	-3.53%
$ 55,000 - $ 59,999	3,308	190,024,991	6,541,642	6,308,977	(232,665)	1,645	457	1,206	73	74	49.7%	13.8%	3.44%	3.32%	1.20%	1.24%	1,978	1,907	(70)	-3.56%
$ 60,000 - $ 64,999	3,075	192,147,290	6,907,593	6,645,217	(262,376)	1,556	548	971	62	68	50.6%	17.8%	3.59%	3.46%	1.26%	1.30%	2,246	2,161	(85)	-3.80%
$ 65,000 - $ 69,999	2,582	174,066,270	6,495,017	6,269,220	(225,796)	1,316	555	711	36	36	51.0%	21.5%	3.73%	3.60%	1.19%	1.23%	2,515	2,428	(87)	-3.48%
$ 70,000 - $ 74,999	2,206	159,717,131	6,166,134	5,931,741	(234,392)	1,169	508	529	46	47	53.0%	23.0%	3.86%	3.71%	1.13%	1.16%	2,795	2,689	(106)	-3.80%
$ 75,000 - $ 79,999	1,890	146,229,620	5,847,058	5,613,168	(233,890)	1,063	490	337	25	25	56.2%	25.9%	4.00%	3.84%	1.07%	1.10%	3,094	2,970	(124)	-4.00%
$ 80,000 - $ 89,999	2,658	224,986,807	9,364,192	9,012,314	(351,878)	1,490	766	402	43	42	56.1%	28.8%	4.16%	4.01%	1.71%	1.77%	3,523	3,391	(132)	-3.76%
$ 90,000 - $ 99,999	1,818	172,198,640	7,566,271	7,279,322	(286,948)	1,031	581	206	27	22	56.7%	32.0%	4.39%	4.23%	1.38%	1.43%	4,162	4,004	(158)	-3.79%
$100,000 - $109,999	1,203	126,083,022	5,707,780	5,518,146	(189,634)	674	392	137	22	24	56.0%	32.6%	4.53%	4.38%	1.04%	1.08%	4,745	4,587	(158)	-3.32%
$110,000 - $119,999	842	96,555,189	4,532,379	4,354,761	(177,618)	494	276	72	13	13	58.7%	32.8%	4.69%	4.51%	0.83%	0.85%	5,383	5,172	(211)	-3.92%
$120,000 - $129,999	592	73,848,735	3,626,300	3,432,031	(194,268)	366	187	39	7	6	61.8%	31.6%	4.91%	4.65%	0.66%	0.67%	6,126	5,797	(328)	-5.36%
$130,000 - $139,999	480	64,797,875	3,217,303	3,060,623	(156,680)	329	133	18	5	2	68.5%	27.7%	4.97%	4.72%	0.59%	0.60%	6,703	6,376	(326)	-4.87%
$140,000 - $149,999	334	48,296,366	2,431,905	2,303,445	(128,460)	209	107	18	5	6	62.6%	32.0%	5.04%	4.77%	0.44%	0.45%	7,281	6,897	(385)	-5.28%
$150,000 - $174,999	612	98,416,727	5,270,645	4,946,383	(324,262)	412	172	28	8	6	67.3%	28.1%	5.36%	5.03%	0.96%	0.97%	8,612	8,082	(530)	-6.15%
$175,000 - $199,999	416	77,711,706	4,258,298	3,896,868	(361,431)	301	99	16	5	4	72.4%	23.8%	5.48%	5.01%	0.78%	0.76%	10,236	9,367	(869)	-8.49%
$200,000 - $299,999	589	140,714,489	8,268,944	7,630,008	(638,936)	433	147	9	6	4	73.5%	25.0%	5.88%	5.42%	1.51%	1.50%	14,039	12,954	(1,085)	-7.73%
$300,000 - $399,999	196	67,398,631	4,334,240	3,898,762	(435,478)	151	44	1	1	0	77.0%	22.4%	6.43%	5.78%	0.79%	0.78%	22,113	19,892	(2,222)	-10.05%
$400,000 - $499,999	112	49,845,540	3,364,420	2,996,544	(367,876)	91	21	0	0	0	81.3%	18.8%	6.75%	6.01%	0.61%	0.59%	30,039	26,755	(3,285)	-10.93%
$500,000+	185	214,965,000	15,050,547	13,228,488	(1,822,059)	146	36	3	4	3	78.9%	19.5%	7.00%	6.15%	2.75%	2.59%	81,354	71,505	(9,849)	-12.11%
TOTALS	85,583	3,888,350,387	141,370,288	133,058,624	(8,311,664)	28,754	7,229	49,600	19,121	19,951	33.6%	8.4%	3.64%	3.42%	25.84%	26.10%	1,652	1,555	(97)	-5.88%

IMPACTS BY DECILE GROUP

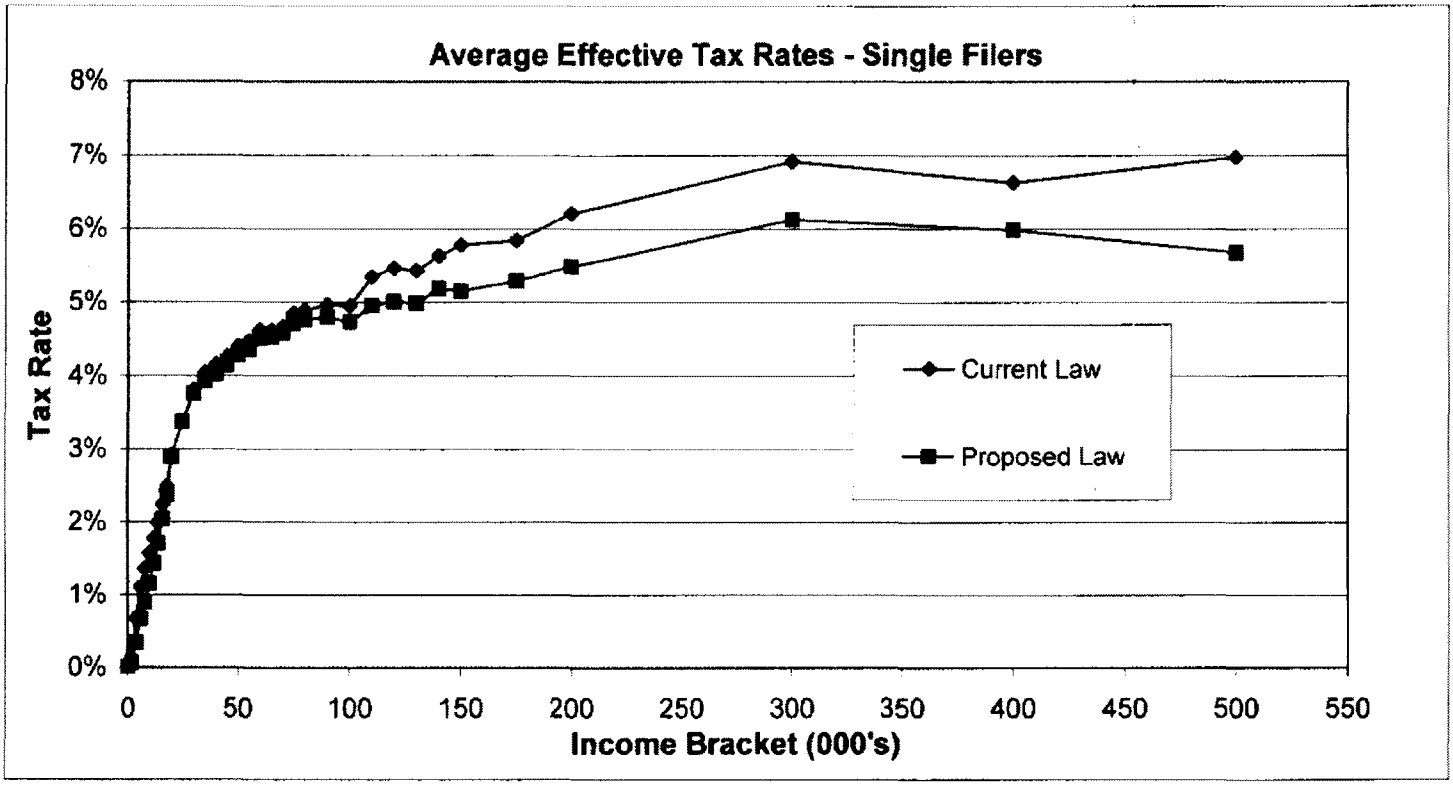
Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,044	5,355,005	11,112	6,501	(4,611)	5	0	2,039	1,930	1,934	0.2%	0.0%	0.21%	0.12%	0.00%	0.00%	5	3	(2)	-41.49%
2 ($4,949)	4,787	31,374,001	47,653	27,250	(20,403)	44	0	4,743	3,893	3,926	0.9%	0.0%	0.15%	0.09%	0.01%	0.01%	10	6	(4)	-42.82%
3 ($8,581)	7,799	83,734,424	275,479	176,931	(98,548)	702	0	7,097	4,762	4,884	9.0%	0.0%	0.33%	0.21%	0.05%	0.03%	35	23	(13)	-35.77%
4 ($13,696)	8,892	136,875,767	864,540	652,121	(212,419)	1,706	5	7,179	3,655	3,841	19.2%	0.1%	0.63%	0.48%	0.16%	0.13%	97	73	(24)	-24.57%
5 ($19,422)	9,271	191,753,268	1,961,550	1,678,341	(283,209)	2,493	25	6,753	2,466	2,653	26.9%	0.3%	1.02%	0.88%	0.36%	0.33%	212	181	(31)	-14.44%
6 ($25,447)	9,558	263,455,600	4,570,320	4,313,274	(257,046)	2,498	138	6,922	1,225	1,387	26.1%	1.4%	1.73%	1.64%	0.84%	0.85%	478	451	(27)	-5.62%
7 ($33,994)	9,747	357,148,595	9,110,577	8,807,745	(302,831)	3,535	470	5,742	507	611	36.3%	4.8%	2.55%	2.47%	1.67%	1.73%	935	904	(31)	-3.32%
8 ($43,668)	10,343	498,229,536	15,492,619	14,987,274	(505,345)	4,869	1,065	4,409	293	331	47.1%	10.3%	3.11%	3.01%	2.83%	2.94%	1,498	1,449	(49)	-3.26%
9 ($58,699)	11,260	721,751,650	26,339,276	25,374,332	(964,944)	5,737	2,090	3,433	219	227	51.0%	18.6%	3.65%	3.52%	4.81%	4.98%	2,339	2,253	(86)	-3.66%
10 ($77,161)	11,882	1,598,672,541	82,697,163	77,034,856	(5,662,308)	7,163	3,436	1,283	171	157	60.3%	26.9%	5.17%	4.82%	15.12%	15.11%	6,960	6,483	(477)	-6.85%
10A ($77,161)	3,958	319,402,619	13,079,510	12,554,719	(524,790)	2,227	1,067	664	57	58	56.3%	27.0%	4.09%	3.93%	2.39%	2.46%	3,305	3,172	(133)	-4.01%
10B ($97,819)	4,173	415,446,144	18,432,976	17,797,855	(635,120)	2,342	1,360	471	71	67	56.1%	32.6%	4.44%	4.28%	3.37%	3.49%	4,417	4,265	(152)	-3.45%
10C ($120,652)	3,751	863,823,778	51,184,678	46,682,281	(4,502,397)	2,594	1,009	148	43	32	69.2%	26.9%	5.93%	5.40%	9.36%	9.16%	13,646	12,445	(1,200)	-8.80%
TOTALS	85,583	3,888,350,387	141,370,288	133,058,624	(8,311,664)	28,754	7,229	49,600	19,121	19,951	33.6%	8.4%	3.64%	3.42%	25.84%	26.10%	1,652	1,555	(97)	-5.88%

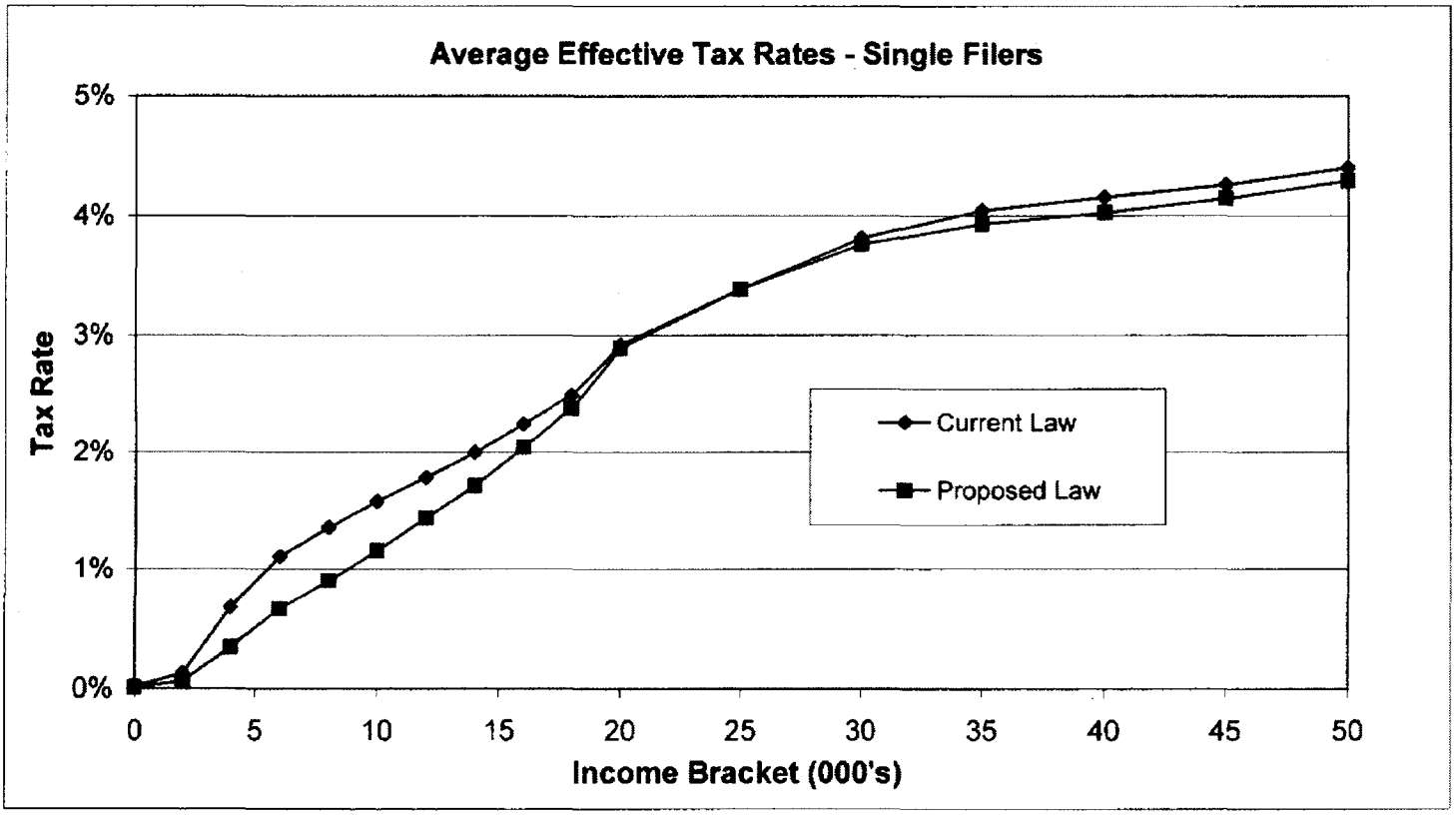
SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts



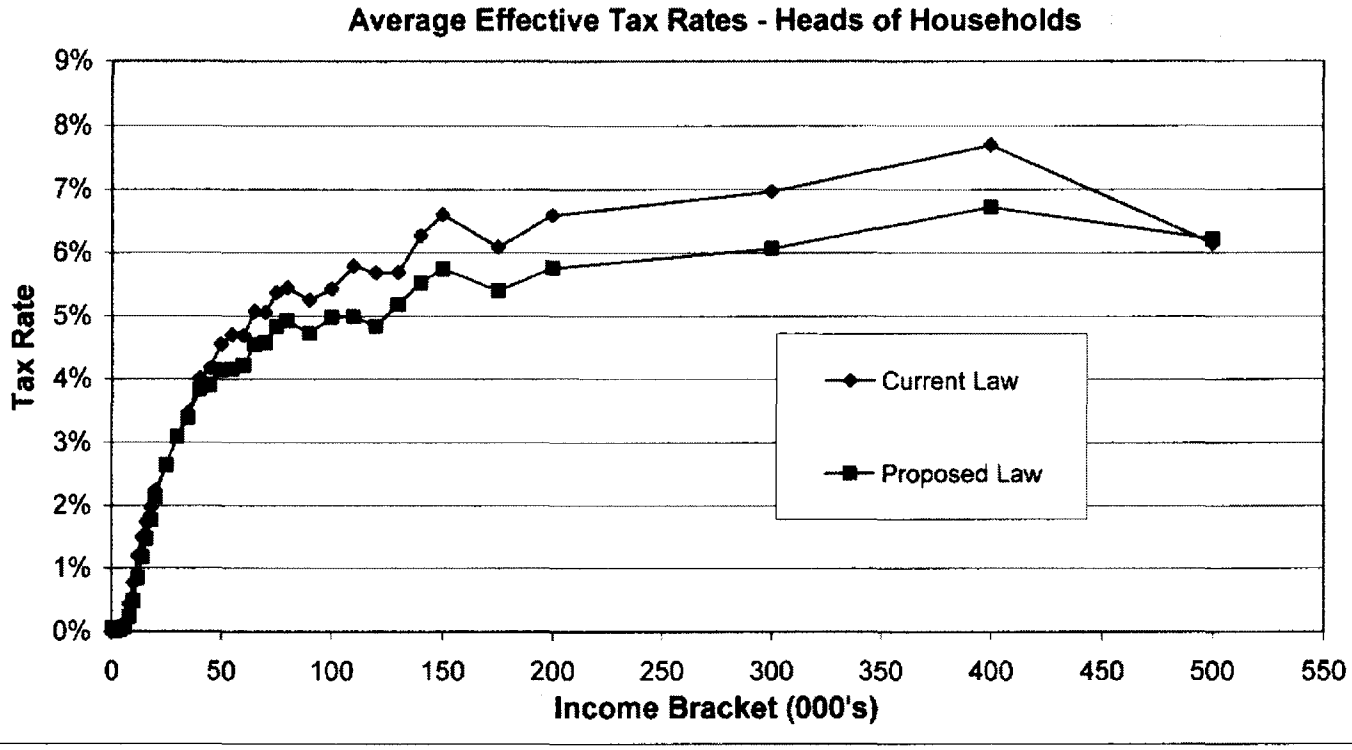


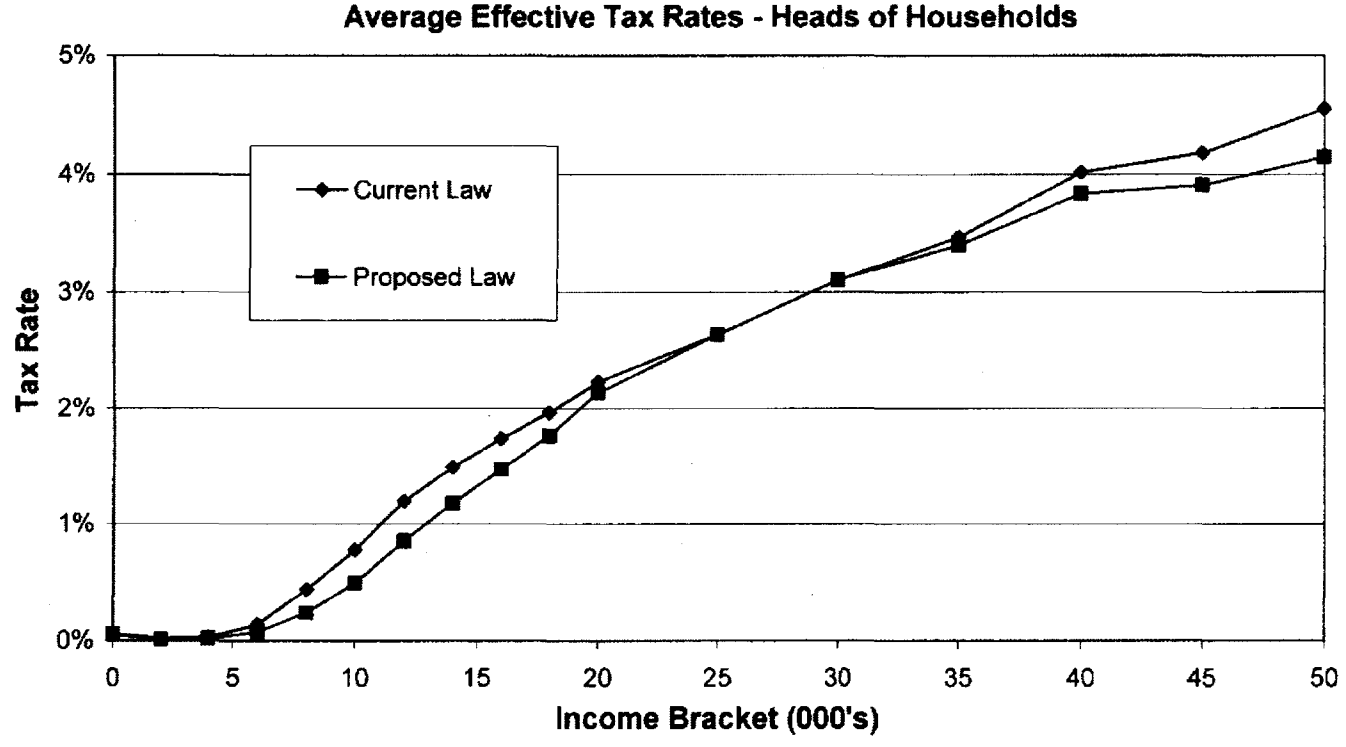
SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts



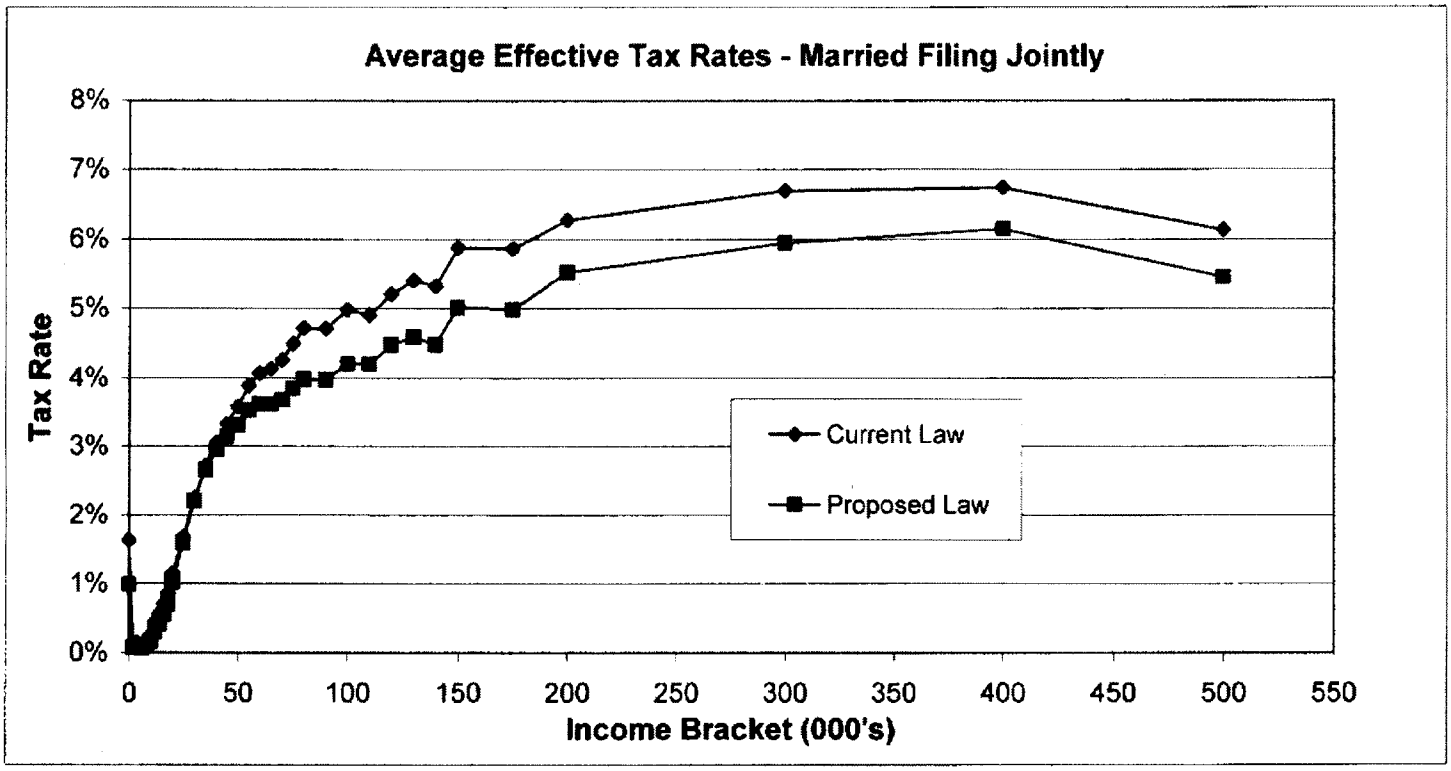


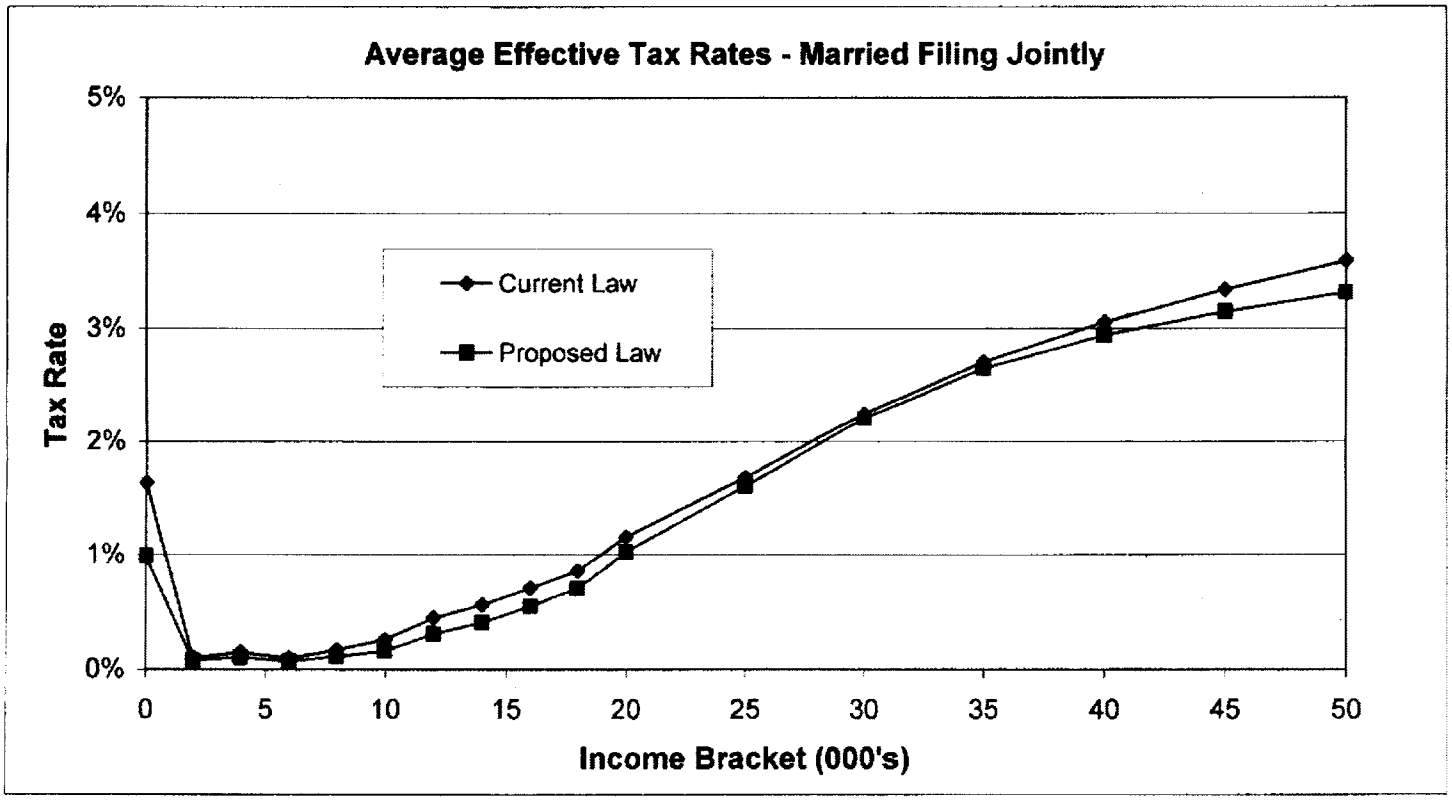
SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts



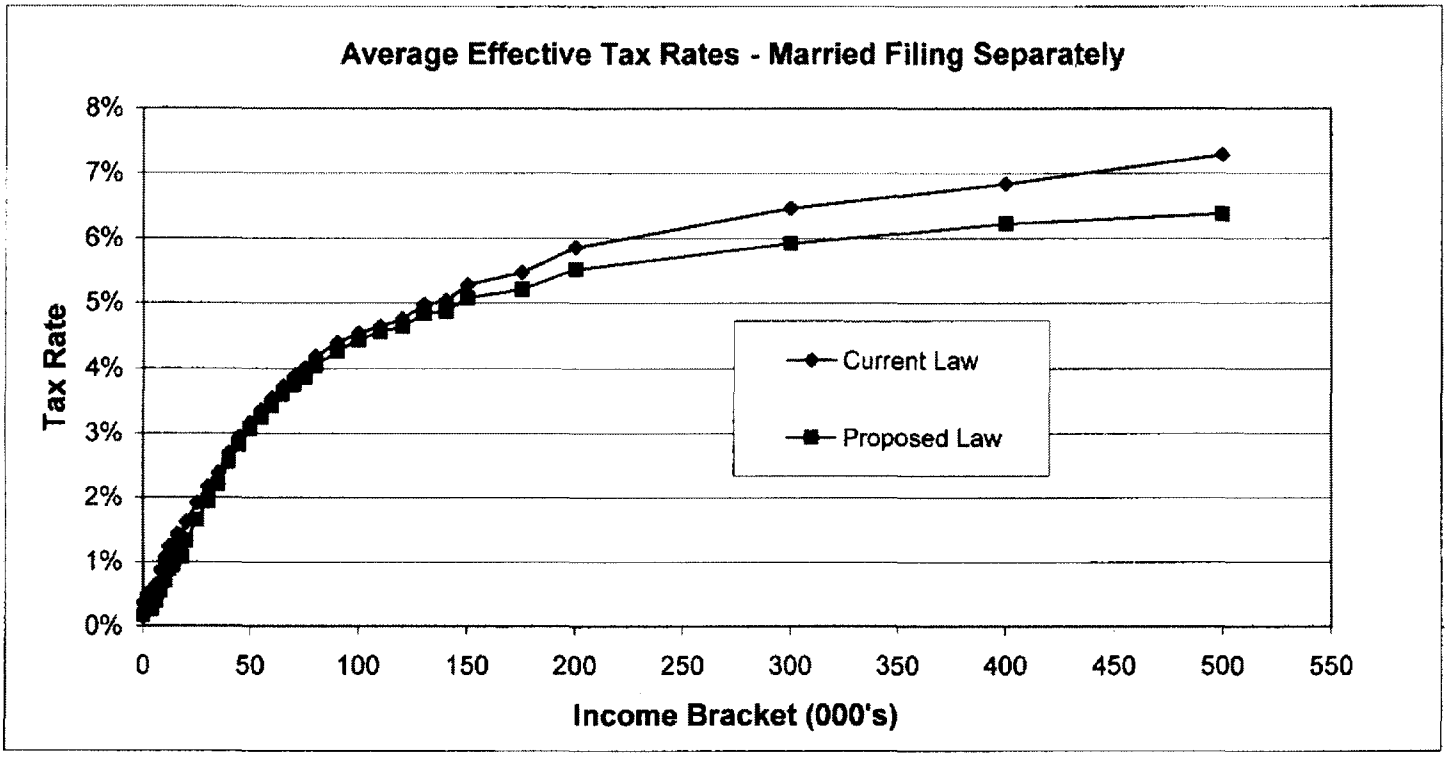


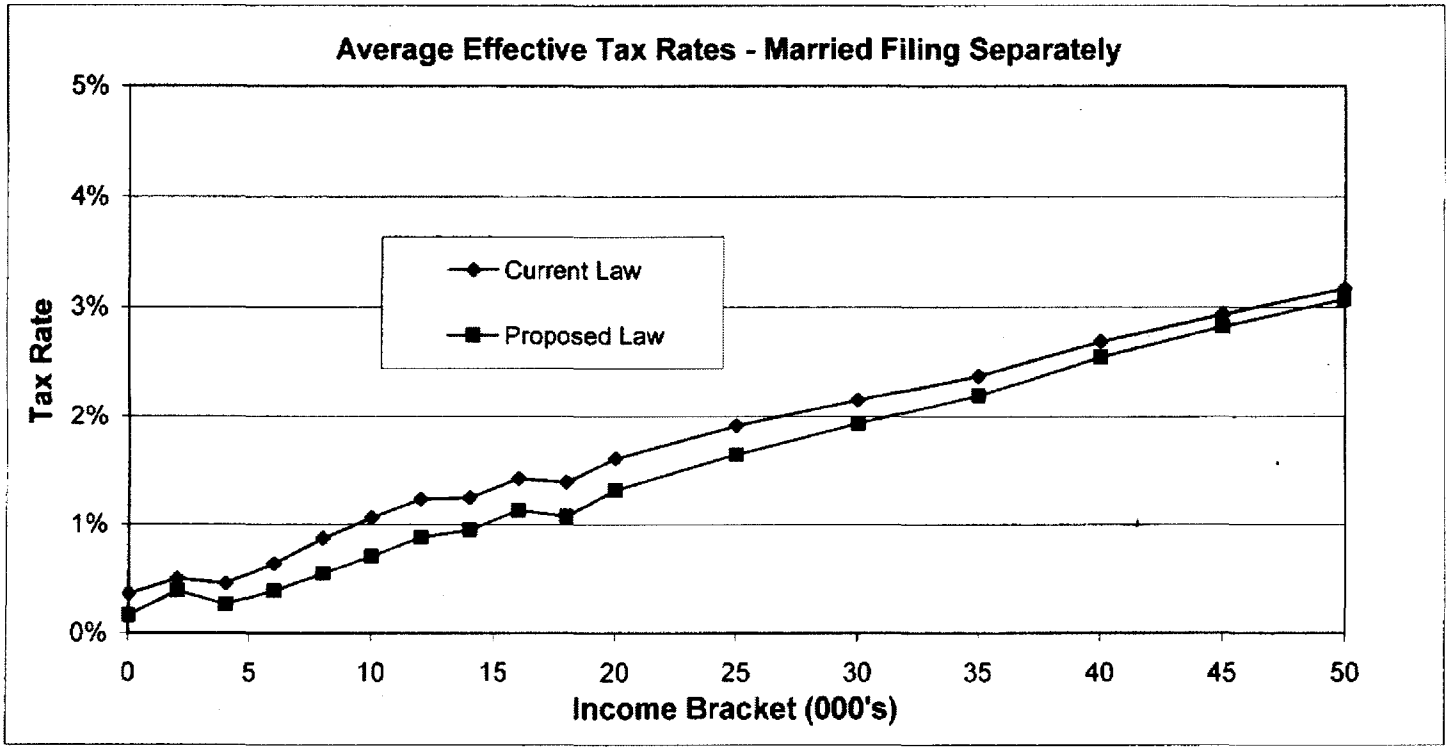
SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts



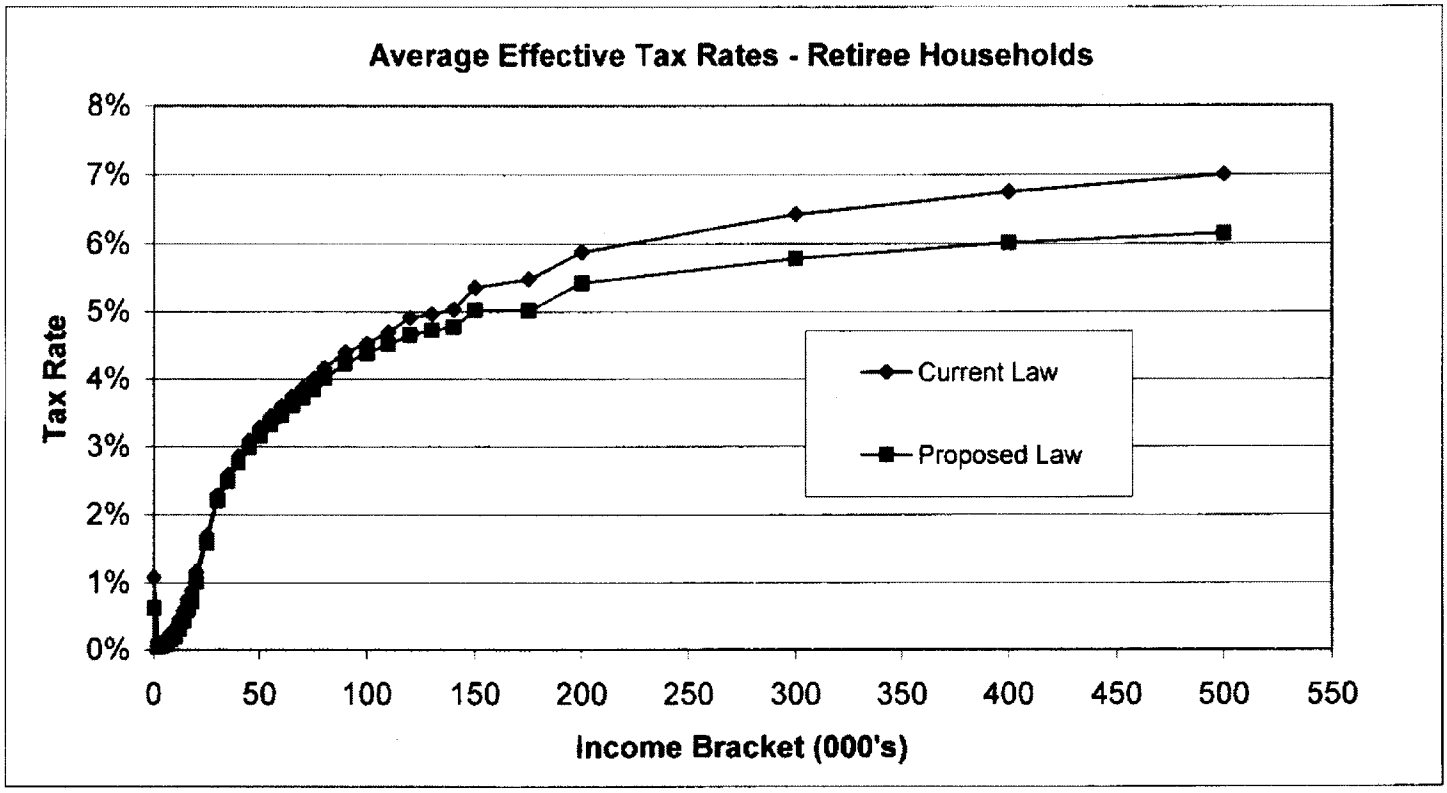


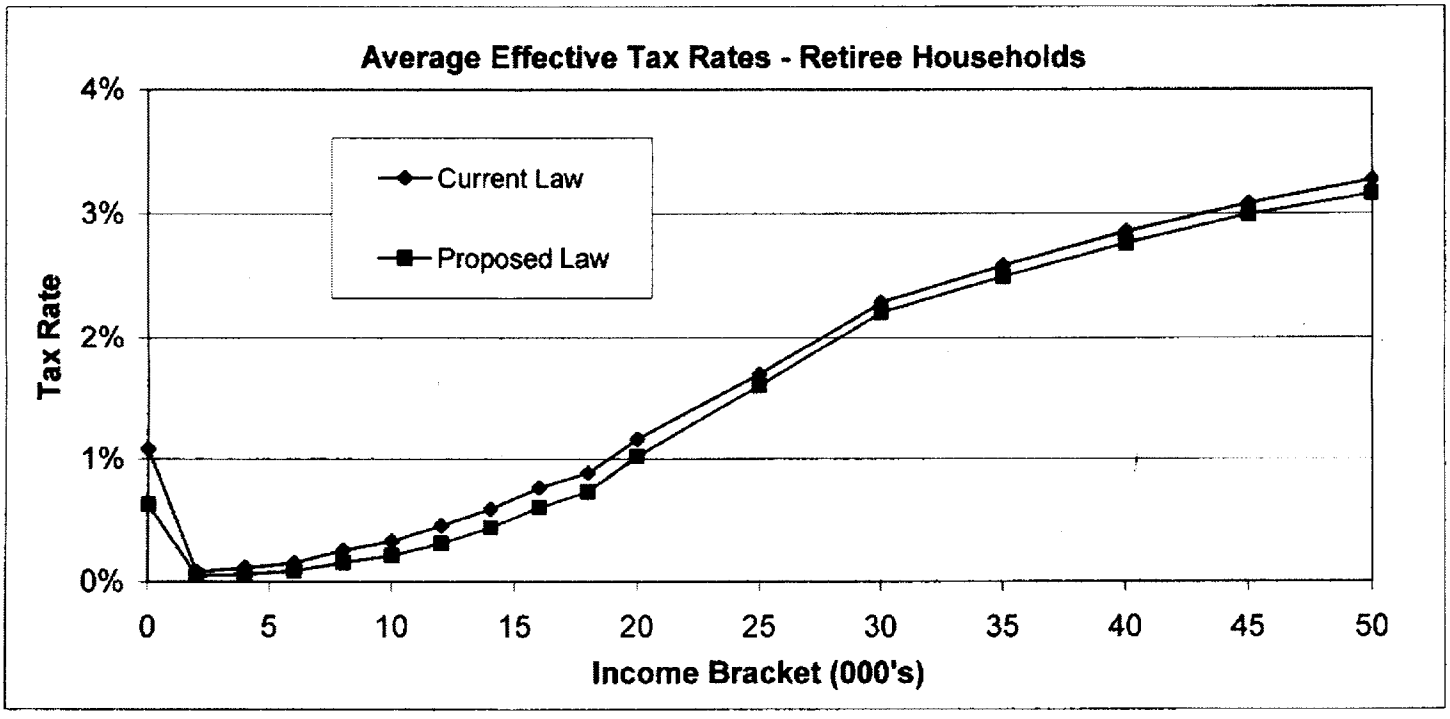
SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts





SB407 Alternative Tax Reform Proposal
Tax Year 2005 Impacts





MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 17, 2003 at 8:04 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Bob Story Jr., Vice Chairman (R)
Sen. Jerry W. Black (R)
Sen. John C. Bohlinger (R)
Sen. Jon Ellingson (D)
Sen. Jim Elliott (D)
Sen. Bill Glaser (R)
Sen. Walter McNutt (R)
Sen. Mike Taylor (R)
Sen. Ken Toole (D)

Members Excused: Sen. Dan Harrington (D)

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society.

Committee Business Summary:

Hearing & Date Posted: SB 471, 3/13/2003; SB 472, 3/13/03
Executive Action: SB 407, SB 469
SB 467 - Indefinitely Postponed

HEARING ON SB 471

Opening Statement by Sponsor:

8:05 **SEN. KEITH BALES, SD 1, Otter** " Tax on coal for transmission and distribution system development".

Proponents' Testimony:

8:15 **SEN. FRED THOMAS, SD 31, Stevensville.**

Opponents' Testimony:

8:19 Verner Bertelsen, Montanan's for the Coal Trust
8:21 Don Judge, Teamsters Local 190 and MT Progressive Labor Caucus
8:27 Patrick Judge, MT Environmental Protection Center
8:29 Matt Leow, MT Public Interest Research Group

Informational Witnesses:

8:30 John Tubbs, Dept of Natural Resources & Conservation
EXHIBIT(tas56a01)
8:35 Dave Simpson, Westmoreland Coal Company
EXHIBIT(tas56a02)
8:39 Jim Mocker, MT Coal Council
8:41 Russ Katherman, Dept of Administration

Questions from Committee Members and Responses:

8:42 Begin
9:34 Ended
52 min Time elapsed.

Closing by Sponsor:

9:34 **SEN. BALES** closed on SB 471.

CHAIRMAN DEPRATU called for a brief recess.

HEARING ON SB 472

Opening Statement by Sponsor:

9:44 **SEN. FRED THOMAS, SD 31, Stevensville** "Reduce rate of severance tax on coal".

Proponents' Testimony:

9:56 **SEN. KEITH BALES, SD 1, Otter.**

Opponents' Tstimony:

9:57 Verner Bertelsen, Montanan's for the Coal Trust
10:00 Don Judge, Teamsters Local # 190 and MT Progressive Labor Caucus

10:07 Matt Leow, MT Public Interest Research Group
10:09 Patrick Judge, MT Environmental Information Center
10:13 Daniel Watson, Rosebud County Commissioner

Informational Witnesses:
10:16 John Tubbs, Dept of Natural Resources & Conservation **EXHIBIT(tas56a03)**
10:23 Sarah Carlson, Executive Director, Montana Association of Conservation Districts **EXHIBIT(tas56a04)**
10:24 Dave Simpson, Westmoreland Coal Company **EXHIBIT(tas56a05)**

Questions from Committee Members and Responses:
10:26 Begin
10:41 Ended
15 min Time elapsed

Closing by Sponsor:
10:41 **SEN. THOMAS** closed on SB 472.

CHAIRMAN DEPRATU appointed **SEN. BILL GLASER, SEN. JOHN BOHLINGER** and **SEN. DAN HARRINGTON** to serve on a sub-committee on SB 471 and SB 472.

CHAIRMAN DEPRATU appointed **SEN. BOB STORY, SEN. JERRY BLACK** and **SEN. KEN TOOLE** to serve on a sub-committee on SB 378 and SB 465.

EXECUTIVE ACTION ON SB 407

10:46 **Motion: SEN. TAYLOR moved that SB 407 DO PASS.** He handed out **EXHIBIT(tas56a06)** and **EXHIBIT(tas56a07).** **Motion: SEN. TAYLOR moved that SB 407 BE AMENDED, SB040701.agp EXHIBIT(tas56a08).**

Discussion:
10:50 Begin
10:56 Ended
6 min Time elapsed.

10:56 **Vote: Motion on the amendment carried 10-1 with ELLIOTT voting no. BOHLINGER, HARRINGTON AND MCNUTT voting aye by proxy.**

10:58 **SEN. TAYLOR moved amendment SB 040702.alh EXHIBIT(tas56a09) Vote: Motion on the amendment carried 10-1 with ELLIOTT voting no. BOHLINGER, HARRINGTON AND MCNUTT voting aye by proxy.**

11:00 **SEN. TAYLOR moved amendment SB 040703.alh EXHIBIT(tas56a10)**

Discussion:
11:00 Begin
11:05 Lee Heiman addressed the amendments.
11:06 Judy Paynter, Dept of Revenue, reviewed the amendments.
11:10 Ended
10 min Time elapsed.

11:11 **Vote: Motion on the amendment carried 11-0 with BOHLINGER, HARRINGTON AND MCNUTT voting aye by proxy.**

11:11 **Motion: SEN. TAYLOR moved that SB 407 DO PASS AS AMENDED.**

Discussion:
11:12 Begin
11:18 Terry Johnson, Legislative Fiscal Division, answered questions from the committee.
11:37 Ended.
26 min Time elapsed.

11:38 **Motion/Vote: SEN. TAYLOR moved that SB 407 DO PASS AS AMENDED. Motion carried 7-4 with ELLINGSON, ELLIOTT and TOOLE voting no. HARRINGTON voted no by proxy and MCNUTT voted aye by proxy.**

EXECUTIVE ACTION ON SB 469

11:40 **Motion: SEN. ELLIOTT moved that SB 469 DO PASS.** He moved a conceptual amendment.

Discussion:
11:41 Begin
11:48 **SEN. GLASER proposed a substitute amendment. SEN. ELLIOTT withdrew his motion. SEN. GLASER moved his conceptual amendment. The motion carried Unanimously with HARRINGTON and MCNUTT voting by proxy. SEN. ELLIOTT** moved a conceptual amendment on page 1, line 28 to strike 5%. **The motion carried Unanimously with HARRINGTON and MCNUTT voting by proxy. SEN. ELLIOTT** then moved another conceptual amendment on page 1, line 28 to insert "If the appeal may continue but a tax or fee etc. etc.". Lee Heiman prepared the amendment SB046903.alh **EXHIBIT(tas56a11)**

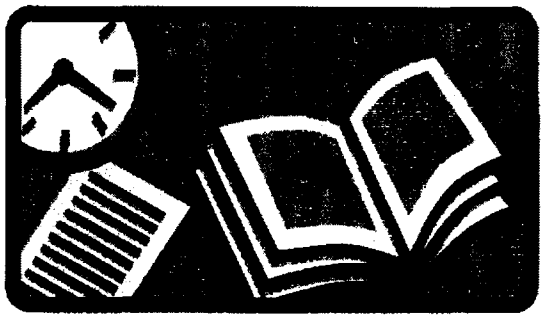


Exhibit: 6

The following exhibit contains several pages, which exceeded the maximum amount that can be scanned.

If you wish to view this exhibit, please contact the:
Montana Historical Society
225 N. Roberts Street
Helena, MT 59601
(406) 444-4774

SB407 Subcommittee March 12, 2003 Amendments - Financial Impact

General Fund Impact	Applicability Date	Fiscal 2003	Fiscal 2004	Fiscal 2005	Total FY2003-2005
Revenue Increases					
Accommodations - Tax 5% increase	6/1/2003	$1,354,167	$16,250,000	$17,000,000	$34,604,167
Rental Car Tax - 9%	7/1/2003	-	3,819,000	3,937,000	7,756,000
Drinks - 4%[2]	7/1/2003	-	8,571,000	8,837,000	17,408,000
Recreation, Admissions, Sporting Goods Rental-4%[1]	7/1/2003	-	5,808,000	5,988,000	11,796,000
Other Tobacco Products Tax doubled (12.5% -25%)	5/1/2003	341,667	2,050,000	2,084,000	4,475,667
Cigarette Tax at 52 cents increase ($0.18 +$0.52 = $0.70)[2]	5/1/2003	4,675,167	28,051,000	27,043,000	59,769,167
TOTAL REVENUE INCREASES		$6,371,000	$64,549,000	$64,889,000	$135,809,000
Revenue Reductions					
Income Tax Reduction		-	(16,078,000)	(37,305,000)	(53,383,000)
System and Administration Cost[3]		(3,200,000)	(4,674,000)	(1,327,000)	(9,201,000)
NET GENERAL FUND IMPACT		**$3,171,000**	**$43,797,000**	**$26,257,000**	**$73,225,000**

[1]May not be able to implement in fiscal 2004.

[2]Assumes that total revenue to wholesalers for discounts are approximately equal to current law and the tax applies to wholesalers' inventory of tax stamps.

[3]These costs will change before the revised fiscal note is prepared.

H:\DO_GEN\TPR - NEW\Session Miscellaneous\Tax Reform Light\[3-12-03.xls]Sheet1 (3)

SENATE TAXATION
DATE March 17, 2003
EXHIBIT NO. 7
BILL NO. SB 407

165

SENATE TAXATION
DATE March 17 2003
EXHIBIT NO. 8
BILL NO. SB407

Amendments to Senate Bill No. 407
1st Reading Copy

For the Senate Taxation Committee

Prepared by Greg Petesch and Lee Heiman
March 13, 2003 (8:52am)

1. Title, line 11.
Following: "DEDUCTION;"
Insert: "INCREASING THE CIGARETTE TAX FROM 18 CENTS TO 70 CENTS ON A PACK OF CIGARETTES AND DEPOSITING THE AMOUNT FROM THE INCREASE IN THE STATE GENERAL FUND; ADJUSTING THE CIGARETTE INSIGNIA DISCOUNTS; INCREASING THE TAX ON TOBACCO PRODUCTS FROM 12.5 PERCENT TO 25 PERCENT; ADJUSTING THE WHOLESALER'S DISCOUNT FOR TOBACCO PRODUCTS;"

2. Title, page 1, line 12.
Strike: "AND"
Following: "15-30-142,"
Insert: "16-11-111, 16-11-114, 16-11-119, 16-11-202, AND 16-11-206,"

3. Title, page 1, line 13.
Following: "PROVIDING"
Strike: "DELAYED"
Strike: "AN"
Strike: "DATE"
Insert: "DATES"

4. Page 1, line 20.
Strike: "41"
Insert: "40"

5. Page 2, line 30 through page 3, line 5.
Strike: subsections (8) and (9) in their entirety
Renumber: subsequent subsections

6. Page 4, line 8.
Strike: "19"
Insert: "18"

7. Page 4, line 11 through line 25.
Strike: subsection (15) in its entirety

8. Page 5, line 22.
Strike: "(21)(a)(iii) through (21)(a)(vii)"
Insert: "(18)(a)(iii) through (18)(a)(vii)"

9. Page 7, line 12.
Strike: "4%"
Insert: "the following percentages"

10. Page 7, lines 13 and 14.
Strike: subsections (a) and (b) in their entirety
Renumber: subsequent subsections

11. Page 7, line 15.
Following: "(c)"
Insert: "4% on"

12. Page 7, line 16.
Following: "(d)"
Insert: "5% on"

13. Page 7, line 17.
Following: "(e)"
Insert: "9% on"

14. Page 7, line 18.
Following: "(f)"
Insert: "4% on"

15. Page 7, line 19.
Following: "(g)"
Insert: "4% on"

16. Page 7, line 20.
Following: "(h)"
Insert: "4% on"

17. Page 7, line 21.
Following: "(i)"
Insert: "4% on"

18. Page 7, line 22.
Following: "(j)"
Insert: "4% on"

19. Page 7, line 27.
Strike: "4%"
Insert: "the following percentages"

20. Page 7, lines 28 and 29.
Strike: subsections (i) and (ii) in their entirety
Renumber: subsequent subsections

21. Page 7, line 30.
Following: "(iii)"
Insert: "4% on"

22. Page 8, line 1.
Following: "(iv)"
Insert: "5% on"

23. Page 8, line 2.
Following: "(v)"
Insert: "9% on"

24. Page 8, line 3.
Following: "(vi)"
Insert: "4% on"

25. Page 8, line 4.
Following: "(vii)"
Insert: "4% on"

26. Page 8, line 5.
Following: "(viii)"
Insert: "4% on"

27. Page 8, line 6.
Following: "(ix)"
Insert: "4% on"

28. Page 8, line 7.
Following: "(x)"
Insert: "4% on"

29. Page 8, line 21.
Strike: "41"
Insert: "40"

30. Page 9, line 14.
Strike: "41"

Insert: "40"

31. Page 9, line 26.
Strike: "41"
Insert: "40"

32. Page 9, line 29.
Strike: "41"
Insert: "40"
Strike: "19"
Insert: "18"

33. Page 10, line 6.
Strike: "41"
Insert: "40"

34. Page 10, line 8.
Strike: "41"
Insert: "40"

35. Page 10, line 10.
Strike: "41"
Insert: "40"

36. Page 11, line 4.
Strike: "19"
Insert: "18"

37. Page 11, line 24 through line 28.
Strike: section 12 in its entirety
Renumber: subsequent sections

38. Page 13, line 9.
Strike: "41"
Insert: "40"

39. Page 13, line 11.
Strike: "41"
Insert: "40"

40. Page 13, line 17.
Strike: "41"
Insert: "40"

41. Page 13, line 24.
Strike: "41"
Insert: "40"

42. Page 13, line 27 through line 28.
Strike: subsection (b) in its entirety
Renumber: subsequent subsections

43. Page 14, line 2.
Strike: "41"
Insert: "40"

44. Page 14, line 12.
Strike: "41"
Insert: "40"

45. Page 14, line 17.
Strike: "41"
Insert: "40"
Strike: "29"
Insert: "28"

46. Page 14, line 18.
Strike: "41"
Insert: "40"

47. Page 14, line 26.
Strike: "41"
Insert: "40"

48. Page 15, line 18.
Strike: "41"
Insert: "40"

49. Page 15, line 19.
Strike: "29"
Insert: "28"

50. Page 15, line 20.
Strike: "41"
Insert: "40"

51. Page 15, line 22.

120

Strike: "19"
Insert: "18"

52. Page 15, line 28.
Strike: "41"
Insert: "40"

53. Page 16, line 12.
Strike: "41"
Insert: "40"

54. Page 16, line 15.
Strike: "41"
Insert: "40"

55. Page 16, line 28.
Strike: "41"
Insert: "40"

56. Page 16, line 29.
Strike: "41"
Insert: "40"

57. Page 17, line 1.
Strike: "41"
Insert: "40"

58. Page 17, line 19.
Strike: "26"
Insert: "25"

59. Page 18, line 4.
Strike: "26"
Insert: "25"

60. Page 18, line 30.
Strike: "41"
Insert: "40"

61. Page 18, line 26.
Strike: "26"
Insert: "25"

62. Page 19, line 19.
Strike: "41"
Insert: "40"

63. Page 19, line 20.
Strike: "41"
Insert: "40"

64. Page 20, line 5.
Strike: "41"
Insert: "40"

65. Page 20, line 14.
Strike: "41"
Insert: "40"

66. Page 20, line 27.
Strike: "41"
Insert: "40"

67. Page 20, line 29.
Strike: "41"
Insert: "40"

68. Page 21, line 1.
Strike: "41"
Insert: "40"

69. Page 21, line 4.
Strike: "41"
Insert: "40"

70. Page 21, line 5.
Strike: "41"
Insert: "40"

71. Page 21, line 11.
Strike: "41"
Insert: "40"

72. Page 21, line 17.
Strike: "41"
Insert: "40"

127

73. Page 22, line 7.
Strike: "41"
Insert: "40"

74. Page 22, line 13.
Strike: "41"
Insert: "40"

75. Page 22, line 14.
Strike: "41"
Insert: "40"

76. Page 22, line 19.
Strike: "41"
Insert: "40"

77. Page 22, line 29.
Strike: "41"
Insert: "40"

78. Page 23, line 2.
Strike: "41"
Insert: "40"

79. Page 23, line 9.
Strike: "41"
Insert: "40"

80. Page 23, line 12.
Following: "gains"
Insert: "for tax years 2004 and 2005 and 2% of the taxpayer's net capital gains for tax years beginning after 2005"

81. Page 23, line 18.
Strike: "$2,150"
Insert: "$2,300"

82. Page 23, line 20.
Strike: "$1,300"
Insert: "$1,400"

83. Page 25, line 5.
Strike: "2006"

Insert: "2004"

84. Page 29, line 6.
Strike: subsection (a) in its entirety

85. Page 29, line 7.
Strike: "(i)"
Insert: "(a)"
Strike: "$2,800"
Insert: "$2,300"
Renumber: subsequent subsections

86. Page 29, line 8.
Strike: "$1,400"
Insert: "$1,800"

87. Page 29, line 9.
Strike: "$2,400"
Insert: "$2,100"

88. Page 29, line 10.
Strike: "$2,600"
Insert: "$2,200"

89. Page 29, line 11.
Strike: "$3,200"
Insert: "$2,400"

90. Page 29, line 12.
Strike: "$3,000"
Insert: "$3,100"

91. Page 29, line 13.
Strike: "$15,600"
Insert: "$13,900"

92. Page 29, line 14 through line 26.
Strike: subsection (b) in its entirety

93. Page 29, line 27.
Strike: "For tax years beginning after December 31, 2005, by"
Insert: "By"

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94. Page 29, line 28.
Strike: "(b)"

95. Page 29, line 30.
Strike: "(b)"

96. Page 30, line 6.
Strike: "$1,950"
Insert: "$1,840"

97. Page 30, line 8.
Strike: "$1,950"
Insert: "$1,840"

98. Page 30, line 12.
Strike: "$1,950"
Insert: "$1,840"

99. Page 30, line 15.
Strike: "$1,950"
Insert: "$1,840"

100. Page 30, line 20.
Strike: "$1,950"
Insert: "$1,840"

101. Page 30, line 22.
Strike: "$1,950"
Insert: "$1,840"

102. Page 31, line 3.
Strike: "$1,950"
Insert: "$1,840"

103. Page 34, line 29.
Strike: "$1,620"
Insert: "$1,530"

104. Page 34, line 30.
Strike: "$3,650"
Insert: "$3,460"

105. Page 35, line 21.

Strike: "$3,650"
Insert: "$3,460"

106. Page 35, line 23.
Strike: "$7,300"
Insert: "$6,920"

107. Page 35, line 25.
Strike: "$1,950"
Insert: "$1,840"

108. Page 36, line 24.
Insert: "Section 49. Section 16-11-111, MCA, is amended to read:

"16-11-111. Cigarette sales tax -- exemption for sale to tribal member. (1) (a) A tax on the purchase of cigarettes for consumption, use, or any purpose other than resale in the regular course of business is imposed and must be precollected by the wholesaler and paid to the state of Montana. The tax is ~~18~~ 70 cents on each package containing 20 cigarettes~~, and, when~~ Whenever packages contain other than 20 cigarettes, there is a tax on each cigarette equal to 1/20th the tax on a package containing 20 cigarettes.

(b) The tax computed under subsection (1)(a) applies to illegally packaged cigarettes under 16-11-307.

(2) The tax imposed in subsection (1) does not apply to quota cigarettes.

(3) Subject to the refund or credit provided in subsection (4), the tax must be precollected on all cigarettes entering a Montana Indian reservation.

(4) Pursuant to the procedure provided in subsection (5), a wholesaler making a sale of cigarettes to a retailer within the boundaries of a Montana Indian reservation may apply to the department for a refund or credit for taxes precollected on cigarettes sold by the retailer to a member of the federally recognized Indian tribe or tribes on whose reservation the sale is made. A wholesaler who does not file a claim within 1 year of the shipment date forfeits the refund or credit.

(5) The distribution of tax-free cigarettes to a tribal member must be implemented through a system of preapproved wholesaler shipments. A licensed Montana wholesaler shall contact the department for approval prior to the shipment of the untaxed cigarettes. The department may authorize sales based on whether the quota, as established in a cooperative agreement between the department and an Indian tribe or as set out in this chapter, has been met. If authorized as a tax-exempt sale, the wholesaler, upon providing proof of order and delivery to a retailer within the boundaries of a Montana Indian reservation selling cigarettes to members of a federally recognized tribe or tribes of that reservation, must be given a ~~credit or~~ refund or credit. Once the quota has been filled, the department shall immediately notify all affected wholesalers that further sales on that reservation

must be taxed and that a claim for a refund or credit will not be honored for the remainder of the quota period. Quota allocations are not transferable between quota periods or between reservations.

(6) The total amount of refunds or credits allowed by the department to all wholesalers claiming the refund or credit under subsection (4) for any month may not exceed an amount that is equal to the tax due on the quota allocation. The department shall determine the amount of refunds or credits for each Indian reservation at the beginning of each fiscal year, using the most recent census data available from the bureau of Indian affairs or as provided in a cooperative agreement with the tribe or tribes of the Indian reservation."

{*Internal References to 16-11-111:*
10-2-416 x *16-11-101 x* *16-11-112 x* *16-11-119 x*
16-11-155 x *16-11-158 x* *16-11-308 x*}"

Insert: "Section 50. Section 16-11-114, MCA, is amended to read:

"16-11-114. Insignia discount. Each licensed wholesaler is entitled to purchase an insignia at full face value less the following percentage of the face value upon payment for the insignia as defrayment of the costs of affixing insignia and precollecting the tax on behalf of the state of Montana:

(1) ~~6%~~ 1.5% for the first 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month;

(2) ~~4%~~ 1% for the next 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month; and

(3) ~~3%~~ 0.75% for purchases in excess of 5,160 cartons in any calendar month."

{*Internal References to 16-11-114:*
16-11-115 x *16-11-116 x*}"

Insert: "Section 51. Section 16-11-119, MCA, is amended to read:

"16-11-119. Disposition of taxes. Cigarette taxes collected under the provisions of 16-11-111 must, in accordance with the provisions of 15-1-501, be ~~allocated~~ deposited as follows:

(1) ~~The amount of 11.11% of the cigarette tax collected on each package of cigarettes must be deposited~~ 3.2% in the state special revenue fund to the credit of the department of public health and human services for the operation and maintenance of state veterans' nursing homes~~.~~;

(2) ~~The amount of 73.04% must, in accordance with the provisions of 15-1-501, be deposited~~ 92.3% in the state general fund~~.~~; and

(3) ~~The amount of 15.85% must, in accordance with the provisions of 15-1-501, be deposited~~ 4.5% in the long-range building program account provided for in 17-7-205."

{*Internal References to 16-11-119:*
10-2-417x *10-2-417 x* *17-7-205 x*}"

Insert: "Section 52. Section 16-11-202, MCA, is amended to read:

"16-11-202. Tax on sale of tobacco other than cigarettes -- imposed on retail consumer -- rate of tax. (1) All taxes paid pursuant to the provisions of this section are considered to be direct taxes on the retail consumer, precollected for the purpose of convenience and facility only. ~~When~~ Whenever the tax is paid by ~~any other~~ another person, the payment is considered as an

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advance payment and must be added to the price of tobacco products and recovered from the ultimate consumer or user. ~~Any~~ A person selling tobacco products at retail shall state or separately display in the premises where the products are sold a notice of the tax included in the selling price and charged or payable pursuant to this section. The provisions of this section do not affect the method of collection of the tax as provided in this part.

(2) There must be collected and paid to the state of Montana a tax of ~~12 1/2%~~ 25% of the wholesale price of all tobacco products to the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to this tax."

{*Internal References to 16-11-202: None.*}"

Insert: "Section 53. Section 16-11-206, MCA, is amended to read:

"16-11-206. Wholesaler's discount -- disposition of taxes. The taxes specified in this part that are paid by the wholesaler must be paid to the department in full less a ~~5%~~ 2.5% defrayment for the wholesaler's collection and administrative expense and must, in accordance with the provisions of 15-1-501, be deposited by the department in the state general fund. Refunds of the tax paid must be made as provided in 15-1-503 in cases in which the tobacco products purchased become unsalable."

{*Internal References to 16-11-206: None.*}"

Insert: "NEW SECTION. **Section 54. Transition.** (1) On or before June 30, 2003, each cigarette wholesale dealer, retail dealer, and vending machine operator shall file a report with the department of revenue in the form prescribed by the department showing the number of stamped cigarettes and cigarette tax insignia on hand at 12:01 a.m. on April 30, 2003.

(2) Accompanying the report filed pursuant to section (1), each cigarette wholesale dealer, retail dealer, and vending machine operator shall pay the difference in tax between the former tax rate and the new tax rate on that portion of inventory of cigarettes and cigarette tax insignia subject to [this act] held by the dealer or operator at 12:01 a.m. on April 30, 2003."

"NEW SECTION. **Section 55. Notification to tribal governments.** The secretary of state shall send a copy of [this act] to each tribal government located on the seven Montana reservations and to the Little Shell band of Chippewa.

Renumber: subsequent sections

109. Page 36, line 26.
Strike: "41"
Insert: "40"

110. Page 36, line 27.
Strike: "41"
Insert: "40"

111. Page 36, line 28.
Strike: "42"
Insert: "41"

112. Page 66, line 29.
Strike: "41"
Insert: "40"

113. Page 37, line 9.
Strike: "January 1, 2005"
Insert: "on passage and approval"

114. Page 37, line 10.
Strike: "43, 44, 46, 48, and 49"
Insert: "42 through 48"

115. Page 37, lines 12 and 13.
Following: "Applicability."
Insert: "(1)"
Following: "of" on line 12
Insert: "the following"
Strike: "after December 31, 2004" on lines 12 and 13
Insert: ":

(a) cigarette and tobacco products sold on or after May 1, 2003;

(b) accommodation and campground charges under [section 3(1)(b) and (3)(a)(ii) made on or after June 1, 2003; and

(c) all other goods and services in [section 3(1) and (3)(a) sold after June 30, 2003.

(2) [Sections 41 and 43 through 46] apply to tax years beginning after December 31, 2003"

- END -

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SENATE TAXATION
DATE March 17, 2003
EXHIBIT NO. 9
BILL NO. SB 407

Amendments to Senate Bill No. 407
1st Reading Copy

For the Senate Taxation Committee

Prepared by Lee Heiman
March 12, 2003 (6:07pm)

Moist Snuff: further amends SB040701.agp by deleting the amendment of 16-1-202, amending 16-11-201, and conforming the title.

1. Page 36, line 24.
Insert: "Section 52. Section 16-11-201, MCA, is amended to read:
"16-11-201. Definitions. As used in this part, the following definitions apply, unless the context requires otherwise:
(1) "Moist snuff" means any finely cut, ground, or powdered tobacco, other than dry snuff, that is intended to be placed in the oral cavity.
(2) "Retailer" means any person other than a wholesaler who is engaged in the business of selling tobacco products to the ultimate consumer.
~~(2)~~(3) "Sale" or "sell" means any transfer of tobacco products for a consideration, exchange, barter, gift, offer for sale, or distribution, in any manner or by any means.
~~(3)~~(4) "Tobacco product" means a substance other than cigarettes that is intended for human consumption and that contains tobacco.
~~(4)~~(5) "Wholesale price" means the established price for which a manufacturer sells a tobacco product to a wholesaler or any other person before any discount or other reduction.
~~(5)~~(6) "Wholesaler" means any person who purchases tobacco products directly from the manufacturer or from any other person who purchases from the manufacturer and who acquires the products for sale to retail dealers."
{ *Internal References to 16-11-201:*
16-10-306 }"
Insert: "Section 53. Section 16-11-202, MCA, is amended to read:
"16-11-202. Tax on sale of tobacco other than cigarettes -- imposed on retail consumer -- rate of tax. (1) All taxes paid pursuant to the provisions of this section are considered to be direct taxes on the retail consumer, precollected for the purpose of convenience and facility only. When the tax is paid by any other person, the payment is considered as an advance payment and must be added to the price of tobacco products and recovered from the ultimate consumer or user. ~~Any~~ A person selling tobacco products at retail shall state or separately display in the premises where the products are sold a notice of the tax included in the selling price and charged or payable pursuant to this section. The provisions of this section do not affect the method of collection of the tax as provided in this part.

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(2) There must be collected and paid to the state of Montana a tax of ~~12 1/2%~~ 25% of the wholesale price, to the wholesaler, of all tobacco products, other than moist snuff ~~to the wholesaler~~. The tax on moist snuff is 56 cents an ounce based upon the net weight of the package listed by the manufacturer. For packages of moist snuff that are less than or greater than 1 ounce, the tax must be proportional to the size of the package. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to this tax."

{*Internal References to 16-11-202: None.*}"

- END -

SENATE TAXATION
DATE March 17, 2003
EXHIBIT NO. 10
BILL NO. SB 407

Amendments to Senate Bill No. 407
1st Reading Copy

For the Senate Taxation Committee

Prepared by Lee Heiman
March 13, 2003 (2:58pm)

Partial delay of implementation until April 1, 2004.

1. Page 37, lines 12 and 13.
Following: "Applicability."
Insert: "(1)"
Following: "of" on line 12
Insert: "the following"
Strike: "after December 31, 2004" on lines 12 and 13
Insert: ":

(a) cigarette and tobacco products sold on or after May 1, 2003;

(b) accommodation and campground charges under [section 3(1)(b) and (3)(a)(ii)] made on or after June 1, 2003;

(c) base rental charges for motor vehicles under [section 3(1)(c) and (3)(a)(iii)] made on or after July 1, 2003; and

(d) all other goods and services in [section 3(1) and (3)(a)] sold after March 31, 2004.

(2) [Sections 41 and 43 through 46] apply to tax years beginning after December 31, 2003."

- END -

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SENATE
TAXATION COMMITTEE
ROLL CALL

DATE March 17, , 2003

MEMBER	ASSIGNMENT	PRESENT	EXCUSED	ABSENT
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member	✓		
Sen. Jim Elliott	Member	✓		
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member		✓	
Sen. Walt McNutt	Member	✓		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member	✓		
Sen. Bob Story	Vice Chair	✓		

PROXY VOTE

I, THE UNDERSIGNED, HEREBY AUTHORIZE

SENATOR Toole **TO VOTE MY PROXY**

ON ANY ISSUE BEFORE THE SENATE COMMITTEE

ON Taxation **MEETING HELD ON** March 17,

2003.

SENATOR HARRINGTON
STATE OF MONTANA

DoPass - SB 407 - No with Ellingson, Elliott & Toole
SB 469 - Do Pass As Amended - Unanimous with Harrington & McNutt by proxy
SB 467 - Ind PP. - No with Ellingson, Elliott & Toole

MONTANA SENATE
2003 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE Mar 17, 2003 BILL NO. SB407 NUMBER 1

MOTION: Sen. Mike Taylor moved SB407 DO PASS AS AMENDED.

SENATE MEMBERS	ASSIGNMENT	YES	NO	ABSTAIN
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member		✓	
Sen. Jim Elliott	Member		✓	
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member		✓	
Sen. Walt McNutt	Member	✓ P		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member		✓	
Sen. Bob Story	Vice Chair	✓		
		(7)	(4)	

SENATE STANDING COMMITTEE REPORT

Mr. President:

We, your committee on **Taxation** recommend that **Senate Bill 407** (first reading copy -- white) **do pass as amended.**

Signed: _____
Senator Bob DePratu, Chair

And, that such amendments read:

1. Title, line 11.
Following: "DEDUCTION;"
Insert: "INCREASING THE CIGARETTE TAX FROM 18 CENTS TO 70 CENTS ON A PACK OF CIGARETTES AND DEPOSITING THE AMOUNT FROM THE INCREASE IN THE STATE GENERAL FUND; ADJUSTING THE CIGARETTE INSIGNIA DISCOUNTS; INCREASING THE TAX ON TOBACCO PRODUCTS FROM 12.5 PERCENT TO 25 PERCENT; PROVIDING FOR A TAX ON EACH OUNCE OF MOIST SNUFF; ADJUSTING THE WHOLESALER'S DISCOUNT FOR TOBACCO PRODUCTS;"

2. Title, page 1, line 12.
Strike: "AND"
Following: "15-30-142,"
Insert: "16-11-111, 16-11-114, 16-11-119, 16-11-201, 16-11-202, AND 16-11-206,"

3. Title, page 1, line 13.
Following: "PROVIDING"
Strike: "DELAYED"
Strike: "AN"
Strike: "DATE"
Insert: "DATES"

4. Page 1, line 20.
Strike: "41"
Insert: "40"

Committee Vote:
Yes 7, No 4.

561613SC.sjo

5. Page 2, line 30 through page 3, line 5.
Strike: subsections (8) and (9) in their entirety
Renumber: subsequent subsections

6. Page 4, line 8.
Strike: "19"
Insert: "18"

7. Page 4, line 11 through line 25.
Strike: subsection (15) in its entirety

8. Page 5, line 22.
Strike: "(21)(a)(iii) through (21)(a)(vii)"
Insert: "(18)(a)(iii) through (18)(a)(vii)"

9. Page 7, line 12.
Strike: "4%"
Insert: "the following percentages"

10. Page 7, lines 13 and 14.
Strike: subsections (a) and (b) in their entirety
Renumber: subsequent subsections

11. Page 7, line 15.
Following: "(c)"
Insert: "4% on"

12. Page 7, line 16.
Following: "(d)"
Insert: "5% on"

13. Page 7, line 17.
Following: "(e)"
Insert: "9% on"

14. Page 7, line 18.
Following: "(f)"
Insert: "4% on"

15. Page 7, line 19.
Following: "(g)"
Insert: "4% on"

16. Page 7, line 20.
Following: "(h)"
Insert: "4% on"

17. Page 7, line 21.
Following: "(i)"
Insert: "4% on"

18. Page 7, line 22.
Following: "(j)"
Insert: "4% on"

19. Page 7, line 27.
Strike: "4%"
Insert: "the following percentages"

20. Page 7, lines 28 and 29.
Strike: subsections (i) and (ii) in their entirety
Renumber: subsequent subsections

21. Page 7, line 30.
Following: "(iii)"
Insert: "4% on"

22. Page 8, line 1.
Following: "(iv)"
Insert: "5% on"

23. Page 8, line 2.
Following: "(v)"
Insert: "9% on"

24. Page 8, line 3.
Following: "(vi)"
Insert: "4% on"

25. Page 8, line 4.
Following: "(vii)"
Insert: "4% on"

26. Page 8, line 5.
Following: "(viii)"
Insert: "4% on"

27. Page 8, line 6.
Following: "(ix)"
Insert: "4% on"

28. Page 8, line 7.
Following: "(x)"
Insert: "4% on"

29. Page 8, line 21.
Strike: "41"
Insert: "40"

30. Page 9, line 14.
Strike: "41"
Insert: "40"

31. Page 9, line 26.
Strike: "41"
Insert: "40"

32. Page 9, line 29.
Strike: "41"
Insert: "40"
Strike: "19"
Insert: "18"

33. Page 10, line 6.
Strike: "41"
Insert: "40"

34. Page 10, line 8.
Strike: "41"

Insert: "40"

35. Page 10, line 10.
Strike: "41"
Insert: "40"

36. Page 11, line 4.
Strike: "19"
Insert: "18"

37. Page 11, line 24 through line 28.
Strike: section 12 in its entirety
Renumber: subsequent sections

38. Page 13, line 9.
Strike: "41"
Insert: "40"

39. Page 13, line 11.
Strike: "41"
Insert: "40"

40. Page 13, line 17.
Strike: "41"
Insert: "40"

41. Page 13, line 24.
Strike: "41"
Insert: "40"

42. Page 13, line 27 through line 28.
Strike: subsection (b) in its entirety
Renumber: subsequent subsections

43. Page 14, line 2.
Strike: "41"
Insert: "40"

44. Page 14, line 12.
Strike: "41"

Insert: "40"

45. Page 14, line 17.
Strike: "41"
Insert: "40"
Strike: "29"
Insert: "28"

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Insert: "40"

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55. Page 16, line 28.
Strike: "41"
Insert: "40"

56. Page 16, line 29.
Strike: "41"
Insert: "40"

57. Page 17, line 1.
Strike: "41"
Insert: "40"

58. Page 17, line 19.
Strike: "26"
Insert: "25"

59. Page 18, line 4.
Strike: "26"
Insert: "25"

60. Page 18, line 26.
Strike: "41"
Insert: "40"

61. Page 18, line 30.
Strike: "26"
Insert: "25"

62. Page 19, line 19.
Strike: "41"
Insert: "40"

63. Page 19, line 20.
Strike: "41"
Insert: "40"

64. Page 20, line 5.
Strike: "41"
Insert: "40"

65. Page 20, line 14.
Strike: "41"
Insert: "40"

66. Page 20, line 27.
Strike: "41"
Insert: "40"

67. Page 20, line 29.
Strike: "41"
Insert: "40"

68. Page 21, line 1.
Strike: "41"
Insert: "40"

69. Page 21, line 4.
Strike: "41"
Insert: "40"

70. Page 21, line 5.
Strike: "41"
Insert: "40"

71. Page 21, line 11.
Strike: "41"
Insert: "40"

72. Page 21, line 17.
Strike: "41"
Insert: "40"

73. Page 22, line 7.
Strike: "41"
Insert: "40"

74. Page 22, line 13.
Strike: "41"
Insert: "40"

75. Page 22, line 14.
Strike: "41"
Insert: "40"

76. Page 22, line 19.
Strike: "41"
Insert: "40"

77. Page 22, line 29.
Strike: "41"
Insert: "40"

78. Page 23, line 2.
Strike: "41"
Insert: "40"

79. Page 23, line 9.
Strike: "41"
Insert: "40"

80. Page 23, line 12.
Following: "gains"
Insert: "for tax years 2004 and 2005 and 2% of the taxpayer's net capital gains for tax years beginning after 2005"

81. Page 23, line 18.
Strike: "$2,150"
Insert: "$2,300"

82. Page 23, line 20.
Strike: "$1,300"
Insert: "$1,400"

83. Page 25, line 5.
Strike: "2006"
Insert: "2004"

84. Page 29, line 6.
Strike: subsection (a) in its entirety

85. Page 29, line 7.
Strike: "(i)"
Insert: "(a)"
Strike: "$2,800"
Insert: "$2,300"
Renumber: subsequent subsections

86. Page 29, line 8.
Strike: "$1,400"
Insert: "$1,800"

87. Page 29, line 9.
Strike: "$2,400"
Insert: "$2,100"

88. Page 29, line 10.
Strike: "$2,600"
Insert: "$2,200"

89. Page 29, line 11.
Strike: "$3,200"
Insert: "$2,400"

90. Page 29, line 12.
Strike: "$3,000"
Insert: "$3,100"

91. Page 29, line 13.
Strike: "$15,600"
Insert: "$13,900"

92. Page 29, line 14 through line 26.
Strike: subsection (b) in its entirety

93. Page 29, line 27.
Strike: "For tax years beginning after December 31, 2005, by"

154

Insert: "By"

94. Page 29, line 28.
Strike: "(b)"

95. Page 29, line 30.
Strike: "(b)"

96. Page 30, line 6.
Strike: "$1,950"
Insert: "$1,840"

97. Page 30, line 8.
Strike: "$1,950"
Insert: "$1,840"

98. Page 30, line 12.
Strike: "$1,950"
Insert: "$1,840"

99. Page 30, line 15.
Strike: "$1,950"
Insert: "$1,840"

100. Page 30, line 20.
Strike: "$1,950"
Insert: "$1,840"

101. Page 30, line 22.
Strike: "$1,950"
Insert: "$1,840"

102. Page 31, line 3.
Strike: "$1,950"
Insert: "$1,840"

103. Page 34, line 29.
Strike: "$1,620"
Insert: "$1,530"

104. Page 34, line 30.
Strike: "$3,650"
Insert: "$3,460"

105. Page 35, line 21.
Strike: "$3,650"
Insert: "$3,460"

106. Page 35, line 23.
Strike: "$7,300"
Insert: "$6,920"

107. Page 35, line 25.
Strike: "$1,950"
Insert: "$1,840"

108. Page 36, line 24.
Insert: "Section 49. Section 16-11-111, MCA, is amended to read:

"16-11-111. Cigarette sales tax -- exemption for sale to tribal member. (1) (a) A tax on the purchase of cigarettes for consumption, use, or any purpose other than resale in the regular course of business is imposed and must be precollected by the wholesaler and paid to the state of Montana. The tax is ~~18~~ 70 cents on each package containing 20 cigarettes. ~~and, when~~ Whenever packages contain other than 20 cigarettes, there is a tax on each cigarette equal to 1/20th the tax on a package containing 20 cigarettes.

(b) The tax computed under subsection (1)(a) applies to illegally packaged cigarettes under 16-11-307.

(2) The tax imposed in subsection (1) does not apply to quota cigarettes.

(3) Subject to the refund or credit provided in subsection (4), the tax must be precollected on all cigarettes entering a Montana Indian reservation.

(4) Pursuant to the procedure provided in subsection (5), a wholesaler making a sale of cigarettes to a retailer within the boundaries of a Montana Indian reservation may apply to the department for a refund or credit for taxes precollected on cigarettes sold by the retailer to a member of the federally recognized Indian tribe or tribes on whose reservation the sale is made. A wholesaler who does not file a claim within 1 year of the shipment date forfeits the refund or credit.

(5) The distribution of tax-free cigarettes to a tribal member must be implemented through a system of preapproved wholesaler shipments. A licensed Montana wholesaler shall contact

the department for approval prior to the shipment of the untaxed cigarettes. The department may authorize sales based on whether the quota, as established in a cooperative agreement between the department and an Indian tribe or as set out in this chapter, has been met. If authorized as a tax-exempt sale, the wholesaler, upon providing proof of order and delivery to a retailer within the boundaries of a Montana Indian reservation selling cigarettes to members of a federally recognized tribe or tribes of that reservation, must be given a ~~credit or~~ refund or credit. Once the quota has been filled, the department shall immediately notify all affected wholesalers that further sales on that reservation must be taxed and that a claim for a refund or credit will not be honored for the remainder of the quota period. Quota allocations are not transferable between quota periods or between reservations.

(6) The total amount of refunds or credits allowed by the department to all wholesalers claiming the refund or credit under subsection (4) for any month may not exceed an amount that is equal to the tax due on the quota allocation. The department shall determine the amount of refunds or credits for each Indian reservation at the beginning of each fiscal year, using the most recent census data available from the bureau of Indian affairs or as provided in a cooperative agreement with the tribe or tribes of the Indian reservation.""

Insert: "Section 50. Section 16-11-114, MCA, is amended to read:

"16-11-114. Insignia discount. Each licensed wholesaler is entitled to purchase an insignia at full face value less the following percentage of the face value upon payment for the insignia as defrayment of the costs of affixing insignia and precollecting the tax on behalf of the state of Montana:

(1) ~~6%~~ 1.5% for the first 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month;

(2) ~~4%~~ 1% for the next 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month; and

(3) ~~3%~~ 0.75% for purchases in excess of 5,160 cartons in any calendar month.""

Insert: "Section 51. Section 16-11-119, MCA, is amended to read:

"16-11-119. Disposition of taxes. Cigarette taxes collected under the provisions of 16-11-111 must, in accordance with the provisions of 15-1-501, be ~~allocated~~ deposited as follows:

(1) ~~The amount of 11.11% of the cigarette tax collected on each package of cigarettes must be deposited~~ 3.2% in the state special revenue fund to the credit of the department of public health and human services for the operation and maintenance of state veterans' nursing homes~~.~~;

(2) ~~The amount of 73.04% must, in accordance with the provisions of 15-1-501, be deposited~~ 92.3% in the state general fund~~.~~; and

(3) ~~The amount of 15.85% must, in accordance with the provisions of 15-1-501, be deposited~~ 4.5% in the long-range building program account provided for in 17-7-205.""

Insert: "Section 52. Section 16-11-201, MCA, is amended to read:

"16-11-201. Definitions. As used in this part, the following definitions apply, unless the context requires otherwise:

(1) "Moist snuff" means any finely cut, ground, or powdered tobacco, other than dry snuff, that is intended to be placed in the oral cavity.

(2) "Retailer" means any person other than a wholesaler who is engaged in the business of selling tobacco products to the ultimate consumer.

~~(2)~~(3) "Sale" or "sell" means any transfer of tobacco products for a consideration, exchange, barter, gift, offer for sale, or distribution, in any manner or by any means.

~~(3)~~(4) "Tobacco product" means a substance other than cigarettes that is intended for human consumption and that contains tobacco.

~~(4)~~(5) "Wholesale price" means the established price for which a manufacturer sells a tobacco product to a wholesaler or any other person before any discount or other reduction.

~~(5)~~(6) "Wholesaler" means any person who purchases tobacco products directly from the manufacturer or from any other person who purchases from the manufacturer and who acquires the products for sale to retail dealers.""

Insert: "Section 53. Section 16-11-202, MCA, is amended to read:

"16-11-202. Tax on sale of tobacco other than cigarettes -- imposed on retail consumer -- rate of tax. (1) All taxes paid pursuant to the provisions of this section are considered to be direct taxes on the retail consumer, precollected for the purpose of convenience and facility only. When the tax is paid by any other person, the payment is considered as an advance payment and must be added to the price of tobacco products and recovered from the ultimate consumer or user. ~~Any~~ A person selling tobacco products at retail shall state or separately display in the premises where the products are sold a notice of the tax included in the selling price and charged or payable pursuant to this section. The provisions of this section do not affect the method of collection of the tax as provided in this part.

(2) There must be collected and paid to the state of Montana a tax of ~~12 1/2%~~ 25% of the wholesale price, to the wholesaler, of all tobacco products, other than moist snuff ~~to the wholesaler~~. The tax on moist snuff is 56 cents an ounce based upon the net weight of the package listed by the manufacturer. For packages of moist snuff that are less than or greater than 1 ounce, the tax must be proportional to the size of the package. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to this tax.""

Insert: "Section 54. Section 16-11-206, MCA, is amended to read:

"16-11-206. Wholesaler's discount -- disposition of taxes. The taxes specified in this part that are paid by the wholesaler

must be paid to the department in full less a ~~5%~~ 2.5% defrayment for the wholesaler's collection and administrative expense and must, in accordance with the provisions of 15-1-501, be deposited by the department in the state general fund. Refunds of the tax paid must be made as provided in 15-1-503 in cases in which the tobacco products purchased become unsalable.""

Insert: "NEW SECTION. **Section 55. Transition.** (1) On or before June 30, 2003, each cigarette wholesale dealer, retail dealer, and vending machine operator shall file a report with the department of revenue in the form prescribed by the department showing the number of stamped cigarettes and cigarette tax insignia on hand at 12:01 a.m. on April 30, 2003.

(2) Accompanying the report filed pursuant to section (1), each cigarette wholesale dealer, retail dealer, and vending machine operator shall pay the difference in tax between the former tax rate and the new tax rate on that portion of inventory of cigarettes and cigarette tax insignia subject to [this act] held by the dealer or operator at 12:01 a.m. on April 30, 2003."

Insert: "NEW SECTION. **Section 56. Notification to tribal governments.** The secretary of state shall send a copy of [this act] to each tribal government located on the seven Montana reservations and to the Little Shell band of Chippewa.

Renumber: subsequent sections

109. Page 36, line 26.
Strike: "41"
Insert: "40"

110. Page 36, line 27.
Strike: "41"
Insert: "40"

111. Page 36, line 28.
Strike: "42"
Insert: "41"

112. Page 36, line 29.
Strike: "42"
Insert: "41"

113. Page 37, line 9.
Strike: "January 1, 2005"
Insert: "on passage and approval"

114. Page 37, line 10.
Strike: "43, 44, 46, 48, and 49"
Insert: "42 through 48"

115. Page 37, lines 12 and 13.
Following: "Applicability."
Insert: "(1)"
Following: "of" on line 12
Insert: "the following"
Strike: "after December 31, 2004" on lines 12 and 13
Insert: ":

(a) cigarette and tobacco products sold on or after May 1, 2003;

(b) accommodation and campground charges under [section 3(1)(b) and (3)(a)(ii)] made on or after June 1, 2003;

(c) base rental charges for rental vehicles under [section 3(1)(c) and (3)(a)(iii)] made on or after July 1, 2003; and

(d) all other goods and services in [section 3(1) and (3)(a)] sold after March 31, 2004.

(2) [Sections 41 and 43 through 46] apply to tax years beginning after December 31, 2003."

- END -

MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 27, 2003 at 8 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:
Sen. Bob DePratu, Chairman (R)
Sen. Bob Story Jr., Vice Chairman (R)
Sen. Jerry W. Black (R)
Sen. John C. Bohlinger (R)
Sen. Jon Ellingson (D)
Sen. Jim Elliott (D)
Sen. Bill Glaser (R)
Sen. Walter McNutt (R)
Sen. Mike Taylor (R)
Sen. Ken Toole (D)

Members Excused: Sen. Dan Harrington (D)

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society.

Committee Business Summary:

Hearing & Date Posted:	HB 539, 3/20/2003; HB 604, 3/21/2003; SB 482, 3/21/2003; SB 479, 3/20/2003
Executive Action:	SB 479 Indefinitely Postponed SB 470, 407 (Reconsidered 3/28), 470 (2nd time), SB 260, SB 255 (Reconsidered 3/28)

10:56 **SEN. JEFF MANGAN** stated he would get with the Legislative Fiscal Analyst and correct any numbers that need corrected and get the committee copies.

10:57 **VICE CHAIRMAN ROBERT STORY** took over the chair.

EXECUTIVE ACTION ON SB 407

10:58 **Motion/Vote: SEN. BOB DEPRATU moved the committee reconsider their action on SB 407. Motion carried unanimously.**

Motion: SEN. DEPRATU moved that SB 407 DO PASS and moved amendments SB040720.alh. EXHIBIT(11)

Discussion:

11:00 **SEN. DEPRATU** addressed the amendments - he said he would like to offer a conceptual amendment to change the tax from 42 cents to 60 cents a package and also to change the term date to the end of this biennium in the title.

11:02 Lee Heiman addressed the amendments further.

11:03 Begin
11:13 Ended
10 min Time elapsed

11:14 **Vote: Motion on the amendments carried 7-4 (MCNUTT voted aye by proxy) with ELLINGSON, ELLIOTT and TOOLE voting no. HARRINGTON voted no by proxy. Roll Call Vote No. 1.**

11:15 **Motion/Vote: SEN. DEPRATU moved that SB 407 DO PASS AS AMENDED. Motion carried 7-4 with ELLINGSON, ELLIOTT, and TOOLE voting no. MCNUTT voted aye by proxy and HARRINGTON voted no by proxy. Roll Call Vote No. 2.**

EXECUTIVE ACTION ON SB 470 (NO. 2)

11:16 **SEN. TAYLOR** moved to reconsider the committee action on SB 470 as figures needed to be adjusted. **The motion carried unanimously. He then explained and moved an amendment EXHIBIT(12). The motion carried unanimously.**

11:19 **Motion/Vote: SEN. TAYLOR moved that SB 470 DO PASS AS AMENDED. Motion carried 8-3 (MCNUTT voted aye by proxy)**

MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 28, 2003 at 9:06 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Bob Story Jr., Vice Chairman (R)
Sen. Jerry W. Black (R)
Sen. John C. Bohlinger (R)
Sen. Jon Ellingson (D)
Sen. Jim Elliott (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Walter McNutt (R)
Sen. Mike Taylor (R)
Sen. Ken Toole (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Shirley Herrin, Committee Secretary

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society.

Committee Business Summary:

Executive Action: SB 407, SB 255, SB 461, SB 155, SB 167 (Indefinitely Postponed), SB 297, SB 93 (Indefinitely Postponed), SB 463,

CHAIRMAN DEPRATU announced that Judy Paynter, from the Department of Revenue, lost her sister recently and asked if the committee would like to send Judy a card and flowers. The committee opted to send a card and a fruit basket to Judy.

CHAIRMAN DEPRATU turned the Chair over to **VICE CHAIRMAN ROBERT STORY, JR.**

EXECUTIVE ACTION ON SB 407

9:09 **SEN. DEPRATU moved to reconsider action on SB 407. The motion carried. He then moved amendment SB040720.alh dated March 27,2003 at 5:27pm EXHIBIT(tas66a01). The motion carried unanimously.**

9:12 **SEN. BILL GLASER moved amendment SB040721.alh EXHIBIT(tas66a02).**

Discussion:

9:14 Begin
9:16 Ended
2 min Time elapsed.

Vote: The motion carried with DEPRATU voting NO.

9:17 **Motion: SEN. DEPRATU moved that SB 407 DO PASS AS AMENDED.**

Discussion:

9:17 Begin
9:19 **Motion: SEN. BOHLINGER moved to reconsider action on amendment SB040720.alh. as he would like to strike the 60 cent increase and re-insert the 70 cent increase.**

Further Discussion:

9:20 Begin
9:22 **Vote: Motion to reconsider action failed 4-7 with BLACK, DEPRATU, ELLIOTT, GLASER, MCNUTT, STORY, and TAYLOR voting no. Roll Call Vote No. 1.**

9:25 **Motion/Vote: SEN. DEPRATU moved that SB 407 DO PASS AS AMENDED. Motion carried 7-4 with ELLINGSON, ELLIOTT, HARRINGTON, and TOOLE voting no. Roll Call Vote No. 2.**

EXECUTIVE ACTION ON SB 255

9:27 **SEN. DEPRATU moved to reconsider action taken on SB 255. The motion carried.**

9:28 **Motion: SEN. DEPRATU moved that SB 255 DO PASS and moved amendments SB025502.alh. EXHIBIT(tas66a03). He addressed the amendments.** Lee Heiman addressed the

SENATE
TAXATION COMMITTEE
ROLL CALL

DATE March 28, , 2003

MEMBER	ASSIGNMENT	PRESENT	EXCUSED	ABSENT
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member	✓		
Sen. Jim Elliott	Member	✓		
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member	✓		
Sen. Walt McNutt	Member	✓		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member	✓		
Sen. Bob Story	Vice Chair	✓		

SENATE TAXATION
DATE March 28, 2003
EXHIBIT NO. 1
BILL NO. SB 407

Amendments to Senate Bill No. 407
2nd Reading Copy

Requested by Senator Bob DePratu

For the Senate Taxation Committee

Prepared by Lee Heiman
March 27, 2003 (5:27pm)

1. Title, page 1, line 11.
Following: "DEDUCTION;"
Insert: "TEMPORARILY"

2. Title, page 1, line 12.
Strike: "70"
Insert: "60"

3. Title, page 1, line 18.
Following: "DATES"
Strike: "AND"
Insert: ","

4. Title, page 1, line 19.
Following: "DATES"
Insert: ", AND A TERMINATION DATE"

5. Page 37, line 8.
Strike: "70"
Insert: "60"

6. Page 38, line 20.
Strike: "3.2%"
Insert: "3.7%"

7. Page 38, line 22.
Strike: "92.3%"
Insert: "21.9%"

8. Page 38, line 23.
Strike: "and"

9. Page 38, line 24.
Strike: "4.5%"
Insert: "5.2%"

204

10. Page 38, line 25.
Following: "17-7-205"
Insert: "; and
(4) 69.15% in the state special revenue fund to the credit of the department of public health and human services"
Renumber: subsequent section

11. Page 39, line 25.
Strike: "56"
Insert: "35"

12. Page 41, line 5.
Strike: "42"
Insert: "41"
Strike: "2006"
Insert: "2004"

13. Page 41, line 16.
Insert: "NEW SECTION. **Section 62. Termination.** [Sections 49 through 54] terminate June 30, 2005. "

- END -

SENATE TAXATION
DATE March 28, 2003
EXHIBIT NO. 2
BILL NO. SB407

Amendments to Senate Bill No. 407
2nd Reading Copy

Requested by Senator Bill Glaser

For the Senate Taxation Committee

Prepared by Lee Heiman
March 27, 2003 (4:17pm)

1. Page 40, line 14.
Following: "2003"
Insert: ", that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year"

- END -

MONTANA SENATE
2003 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE March 28, 2003 BILL NO. SB407 NUMBER 1

MOTION: Sen. John Bohlinger moved to Reconsider Action on Amendment SB040720.alh

MEMBER	ASSIGNMENT	YES	NO	ABSENT
Sen. Bob DePratu	Chairman		✓	
Sen. Jerry Black	Member		✓	
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member	✓		
Sen. Jim Elliott	Member		✓	
Sen. Bill Glaser	Member		✓	
Sen. Dan Harrington	Member	✓		
Sen. Walt McNutt	Member		✓	
Sen. Mike Taylor	Member		✓	
Sen. Ken Toole	Member	✓		
Sen. Bob Story	Vice Chair		✓	
		4	(7)	

Failed 7-4

MONTANA SENATE
2003 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE March 28, 2003 BILL NO. SB 407 NUMBER 2

MOTION: Sen. Bob DePratu moved DO PASS as Amended

SENATE MEMBER	ASSIGNMENT	YES	NO	ABSENT
Sen. Bob DePratu	Chairman	✓		
Sen. Jerry Black	Member	✓		
Sen. John Bohlinger	Member	✓		
Sen. Jon Ellingson	Member		✓	
Sen. Jim Elliott	Member		✓	
Sen. Bill Glaser	Member	✓		
Sen. Dan Harrington	Member		✓	
Sen. Walt McNutt	Member	✓		
Sen. Mike Taylor	Member	✓		
Sen. Ken Toole	Member		✓	
Sen. Bob Story	Vice Chair	✓		
		(7)	(4)	

SENATE STANDING COMMITTEE REPORT

Mr. President:

We, your committee on **Taxation** recommend that **Senate Bill 407** (second reading copy -- yellow) **do pass as amended.**

Signed: _____
Senator Bob DePratu, Chair

And, that such amendments read:

1. Title, page 1, line 11.
Following: "DEDUCTION;"
Insert: "TEMPORARILY"

2. Title, page 1, line 12.
Strike: "70"
Insert: "60"

3. Title, page 1, line 18.
Following: "DATES"
Strike: "AND"
Insert: ","

4. Title, page 1, line 19.
Following: "DATES"
Insert: ", AND A TERMINATION DATE"

5. Page 37, line 8.
Strike: "70"
Insert: "60"

6. Page 38, line 20.

Committee Vote:
Yes 7, No 4.

Strike: "3.2%"
Insert: "3.7%"

7. Page 38, line 22.
Strike: "92.3%"
Insert: "21.9%"

8. Page 38, line 23.
Strike: "and"

9. Page 38, line 24.
Strike: "4.5%"
Insert: "5.2%"

10. Page 38, line 25.
Following: "17-7-205"
Insert: "; and
(4) 69.2% in the state special revenue fund to the credit of the department of public health and human services"
Renumber: subsequent section

11. Page 39, line 25.
Strike: "56"
Insert: "35"

12. Page 40, line 14.
Following: "2003"
Insert: ", that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year"

13. Page 41, line 5.
Strike: "42"
Insert: "41"
Strike: "2006"
Insert: "2004"

14. Page 41, line 16.

Insert: "NEW SECTION. **Section 62. Termination.** [Sections 49 through 54] terminate June 30, 2005. "

- END -

SB 385 SPONSOR: Mangan, Jeff SHORT TITLE: Venture capital fund tax credits
REFERRED ON: 03/27/2003 HEARD ON: 04/07/2003
TABLED ON: 04/14/2003
FINAL DISPOSITION: 04/26/2003 (H) Died in Standing Committee

SB 407 SPONSOR: DePratu, Bob SHORT TITLE: Income tax reduction with revenue from limited sales tax
REFERRED ON: 04/04/2003 HEARD ON: 04/08/2003
EXECUTIVE ACTION: 04/10/2003 - Bill Concurred as Amended -- VOTE: 10 - 8
FINAL DISPOSITION: 04/30/2003 Chapter Number Assigned

SB 408 SPONSOR: Nelson, Linda SHORT TITLE: Adjustment to state income tax for certain health care professionals
REFERRED ON: 03/07/2003 HEARD ON: 03/19/2003
EXECUTIVE ACTION: 03/19/2003 - Bill Concurred -- VOTE: 15 - 3
FINAL DISPOSITION: 04/30/2003 Chapter Number Assigned

SB 460 SPONSOR: Story, Bob SHORT TITLE: Revise definitions applicable to metal mines license tax
REFERRED ON: 03/19/2003 HEARD ON: 03/26/2003
EXECUTIVE ACTION: 03/26/2003 - Bill Concurred -- VOTE: 16 - 2
FINAL DISPOSITION: 04/15/2003 Chapter Number Assigned

SB 461 SPONSOR: Story, Bob SHORT TITLE: Mitigate effects of cyclical reappraisal
REFERRED ON: 04/04/2003 HEARD ON: 04/09/2003
EXECUTIVE ACTION: 04/11/2003 - Bill Concurred as Amended -- VOTE: 18 - 0
FINAL DISPOSITION: 05/09/2003 (S) Signed by Governor

SB 462 SPONSOR: DePratu, Bob SHORT TITLE: 3-year depreciation for renewable resources recovery and utilization equipment
REFERRED ON: 04/01/2003 HEARD ON: 04/08/2003
TABLED ON: 04/14/2003
FINAL DISPOSITION: 04/26/2003 (H) Died in Standing Committee

SB 463 SPONSOR: Black, Jerry SHORT TITLE: Reduce capital gains for employee owned stock
REFERRED ON: 04/04/2003 HEARD ON: 04/09/2003
TABLED ON: 04/10/2003
FINAL DISPOSITION: 04/26/2003 (H) Died in Standing Committee

SENATE BILL NO. 407

INTRODUCED BY DEPRATU

A BILL FOR AN ACT ENTITLED: "AN ACT CREATING THE MONTANA ECONOMIC DEVELOPMENT TAX ACT; PROVIDING FOR A LIMITED ~~4 PERCENT~~ SALES TAX AND USE TAX ON CERTAIN PROPERTY AND SERVICES; REDUCING INDIVIDUAL INCOME TAX RATES; ESTABLISHING A CAPITAL GAINS CREDIT; PROVIDING FOR COLLECTION OF THE LIMITED SALES TAX AND USE TAX; PROVIDING FOR DISTRIBUTION OF THE LIMITED SALES TAX AND USE TAX REVENUE; CLARIFYING THE DEFINITION OF "CONSUMER PRICE INDEX" RELATING TO INDIVIDUAL INCOME TAX PROVISIONS; AMENDING INDIVIDUAL INCOME TAX EXEMPTIONS; LIMITING THE INDIVIDUAL INCOME TAX DEDUCTION FOR FEDERAL INCOME TAX PAID; AMENDING THE INDIVIDUAL INCOME TAX STANDARD DEDUCTION; TEMPORARILY INCREASING THE CIGARETTE TAX FROM 18 CENTS TO ~~70~~ ~~60~~ 70 CENTS ON A PACK OF CIGARETTES AND DEPOSITING THE AMOUNT FROM THE INCREASE IN THE STATE GENERAL FUND; ADJUSTING THE CIGARETTE INSIGNIA DISCOUNTS; INCREASING THE TAX ON TOBACCO PRODUCTS FROM 12.5 PERCENT TO 25 PERCENT; PROVIDING FOR A TAX ON EACH OUNCE OF MOIST SNUFF; ADJUSTING THE WHOLESALER'S DISCOUNT FOR TOBACCO PRODUCTS; AMENDING SECTIONS 13-37-218, 15-30-101, 15-30-103, 15-30-112, 15-30-121, 15-30-122, ~~AND~~ 15-30-142, 16-11-111, 16-11-114 16-11-119, 16-11-201, 16-11-202, AND 16-11-206, MCA; AND PROVIDING ~~DELAYED~~ EFFECTIVE DATES ~~AND,~~ AND ~~AN~~ APPLICABILITY ~~DATE~~ DATES~~, AND A TERMINATION DATE~~."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Short title.** [This act] may be cited as the "Montana Economic Development Tax Act".

NEW SECTION. **Section 2. Definitions.** For purposes of [sections 2 through ~~41~~ 40], unless the context requires otherwise, the following definitions apply:

(1) (a) "Accommodations" means a building or structure containing individual sleeping rooms or suites that provides overnight lodging facilities for periods of less than 30 days to the general public for compensation.

(b) Accommodations includes a facility represented to the public as a hotel, motel, campground, resort,

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dormitory, condominium inn, dude ranch, guest ranch, hostel, public lodginghouse, or bed and breakfast facility.

(c) The term does not include a health care facility, as defined in 50-5-101, any facility owned by a corporation organized under Title 35, chapter 2 or 3, that is used primarily by persons under 18 years of age for camping purposes, any hotel, motel, hostel, public lodginghouse, or bed and breakfast facility whose average daily accommodation charge for single occupancy does not exceed 60% of the amount authorized under 2-18-501 for the actual cost of lodging for travel within the state of Montana, or any other facility that is rented solely on a monthly basis or for a period of 30 days or more.

(2) (a) "Admission" means payment made for the privilege of being admitted to a facility, place, or event.

(b) The term does not include payment for admittance to a movie theater or to a sporting event sanctioned by a school district, college, or university.

~~(3) "Alcoholic beverages" means beverages that are suitable for human consumption and contain 1/2 of 1% or more of alcohol by volume.~~

~~(4)~~(3) (a) "Base rental charge" means the following:

(i) charges for time of use of the rental vehicle and mileage, if applicable;

(ii) charges accepted by the renter for personal accident insurance;

(iii) charges for additional drivers or underage drivers; and

(iv) charges for child safety restraints, luggage racks, ski racks, or other accessory equipment for the rental vehicle.

(b) The term does not include:

(i) rental vehicle price discounts allowed and taken;

(ii) rental charges or other charges or fees imposed on the rental vehicle owner or operator for the privilege of operating as a concessionaire at an airport terminal building;

(iii) motor fuel;

(iv) intercity rental vehicle drop charges; or

(v) taxes imposed by the federal government or by state or local governments.

~~(5) "Camp" means a facility, place, or location in which persons are provided, for payment, instruction or recreation in conjunction with room and board for a limited period of time, typically measured in days or weeks.~~

~~(6)~~(4) (a) "Campground" means a place used for public camping where persons may camp, secure tents, or park individual recreational vehicles for camping and sleeping purposes.

(b) The term does not include that portion of a trailer court, trailer park, or mobile home park intended for occupancy by trailers or mobile homes for resident dwelling purposes for periods of 30 consecutive days or more.

~~(7)~~(5) "Engaging in business" means carrying on or causing to be carried on any activity with the purpose of receiving direct or indirect benefit.

~~(8) (a) "Food ingredients" means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and that are consumed for their taste or nutritional value.~~

~~(b) The term does not include alcoholic beverages or tobacco.~~

~~(9) "Food sold through vending machines" means food dispensed from a machine or other mechanical device that accepts payment.~~

~~(10)~~(8) ~~"Guided recreation and sightseeing" means recreational activities or sightseeing in which a service provider, for payment, accompanies or provides direction or instruction to the purchaser.~~

~~(11)~~(9)(6) (a) "Lease", "leasing", or "rental" means any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration. A lease or rental may include future options to purchase or extend.

(b) Lease or rental includes agreements covering motor vehicles and trailers when the amount of consideration may be increased or decreased by reference to the amount realized upon sale or disposition of the property, as defined in 26 U.S.C. 7701(h)(1).

(c) The term does not include:

(i) a transfer of possession or control of property under a security agreement or deferred payment plan that requires the transfer of title upon completion of the required payments;

(ii) a transfer of possession or control of property under an agreement that requires the transfer of title upon completion of required payments and payment of an option price that does not exceed the greater of $100 or 1% of the total required payments; or

(iii) providing tangible personal property with an operator if an operator is necessary for the equipment to perform as designed and not just to maintain, inspect, or set up the tangible personal property.

(d) This definition must be used for sales tax and use tax purposes regardless of whether a transaction is characterized as a lease or rental under generally accepted accounting principles, the Internal Revenue Code the Montana Uniform Commercial Code, or other provisions of federal, state, or local law.

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(e) This definition must be applied only prospectively from the date of adoption and has no retroactive impact on existing leases or rentals.

~~(12)(10)~~(7) (a) "Motor vehicle" means a light vehicle as defined in 61-1-139, a motorcycle as defined in 61-1-105, a motor-driven cycle as defined in 61-1-106, a quadricycle as defined in 61-1-133, a motorboat or a sailboat as defined in 23-2-502, an off-highway vehicle as defined in 23-2-801 that:

(i) is rented for a period of not more than 30 days;

(ii) is rented without a driver, pilot, or operator; and

(iii) is designed to transport 15 or fewer passengers.

(b) Motor vehicle includes:

(i) a rental vehicle rented pursuant to a contract for insurance; and

(ii) a truck, trailer, or semitrailer that has a gross vehicle weight of less than 22,000 pounds, that is rented without a driver, and that is used in the transportation of personal property.

(c) The term does not include farm vehicles, machinery, or equipment.

~~(13)(11)~~(8) "Permit" or "seller's permit" means a seller's permit as described in [section ~~19~~ 18].

~~(14)(12)~~(9) "Person" means an individual, estate, trust, fiduciary, corporation, partnership, limited liability company, limited liability partnership, or any other legal entity.

~~(15) (a) "Prepared food" means:~~

~~(i) food sold in a heated state or heated by the seller;~~

~~(ii) two or more food ingredients mixed or combined by the seller for sale as a single item; or~~

~~(iii) food sold with eating utensils provided by the seller, including plates, knives, forks, spoons, glasses, cups, napkins, or straws. A plate does not include a container or packaging used to transport the food.~~

~~(b) The term includes:~~

~~(i) soda pop, juices, coffee, tea, milk, milk shakes, and other beverages, other than alcoholic beverages, that are sold for consumption on the premises of the seller; and~~

~~(ii) bakery items, including bread, rolls, buns, biscuits, bagels, croissants, pastries, doughnuts, Danish pastry, cakes, tortes, pies, tarts, muffins, bars, or cookies, that are sold for consumption on the premises.~~

~~(c) The term does not include:~~

~~(i) food that is only cut, repackaged, or pasteurized by the seller; or~~

~~(ii) eggs, fish, meat, poultry, and foods containing these raw animal foods requiring cooking by the consumer, as recommended by the food and drug administration in chapter 3, part 401.11, of its Food Code so~~

~~as to prevent food-borne illnesses.~~

~~(16)~~(13)(10) "Purchaser" means a person to whom a sale of personal property is made or to whom a service is furnished.

~~(17)~~(14) ~~(a) "Recreation fees" means money paid for participating in or observing sporting, athletic, sightseeing, or recreational activities.~~

~~(b) The term does not include money paid to observe a sporting event sanctioned by a school district, college, or university.~~

~~(18)~~(15)(11) "Rental vehicle" means a motor vehicle that is used for or by a person other than the owner of the motor vehicle through an arrangement and for consideration.

~~(19)~~(16)(12) "Retail sale" means any sale, lease, or rental for any purpose other than for resale sublease, or subrent.

~~(20)~~(17)(13) "Sale" or "selling" means the transfer of property for consideration or the performance of a service for consideration.

~~(21)~~(18)(14) (a) "Sales price" applies to the measure subject to sales tax and means the total amount or consideration, including cash, credit, property, and services, for which personal property or services are sold, leased, or rented or valued in money, whether received in money or otherwise, without any deduction for the following:

(i) the seller's cost of the property sold;

(ii) the cost of materials used, labor or service costs, interest, losses, all costs of transportation to the seller, all taxes imposed on the seller, and any other expense of the seller;

(iii) charges by the seller for any services necessary to complete the sale, other than delivery and installation charges;

(iv) delivery charges;

(v) installation charges;

(vi) the value of exempt personal property given to the purchaser when taxable and exempt personal property have been bundled together and sold by the seller as a single product or piece of merchandise; and

(vii) credit for any trade-in.

(b) The amount received for charges listed in subsections ~~(21)(a)(iii) through (21)(a)(vii)~~ ~~(18)(A)(III)~~ (14)(A)(III) THROUGH ~~(18)(A)(VII)~~ (14)(A)(VII) are excluded from the sales price if they are separately stated on the invoice, billing, or similar document given to the purchaser.

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(c) The term does not include:

(i) discounts, including cash, term, or coupons that are not reimbursed by a third party that are allowed by a seller and taken by a purchaser on a sale;

(ii) interest, financing, and carrying charges from credit extended on the sale of personal property or services if the amount is separately stated on the invoice, bill of sale, or similar document given to the purchaser; or

(iii) any taxes legally imposed directly on the consumer that are separately stated on the invoice, bill of sale, or similar document given to the purchaser.

(d) In an exchange in which the money or other consideration received does not represent the value of the property or service exchanged, sales price means the reasonable value of the property or service exchanged.

(e) When the sale of property or services is made under any type of charge or conditional or time-sales contract or the leasing of property is made under a leasing contract, the seller or lessor shall treat the sales price, excluding any type of time-price differential, under the contract as the sales price at the time of the sale.

~~(22)(19)~~(15) "Sales tax" and "use tax" mean the applicable tax imposed by [section 3].

~~(23)(20)~~(16) "Seller" means a person that makes sales, leases, or rentals of personal property or services.

~~(24)(21)~~(17) (a) "Service" means an activity that is engaged in for another person for consideration and that is distinguished from the sale or lease of property. Service includes activities performed by a person for its members or shareholders.

(b) In determining what a service is, the intended use, principal objective, or ultimate objective of the contracting parties is irrelevant.

~~(25)(22) "Sightseeing" means engaging in a tour or trip for pleasure or culture.~~

~~(26)(23) "Sold by the drink" means alcoholic beverages that are sold for consumption on the premises where they are purchased. The term is not limited to single servings, but includes alcoholic beverages sold by the bottle, can, pitcher, or as more than a single serving.~~

~~(27)(24) "Sporting goods" means items designed for human use and worn or used in conjunction with sporting, athletic, or recreational activities.~~

~~(28)(25) "Sporting, athletic, or recreational activities" are activities commonly performed for pleasure, competition, or fitness purposes. The following list is intended to be examples and not an all-inclusive list:~~

~~(a) horseback riding;~~

~~(b) climbing, trekking, and mountaineering;~~

~~(c) biking;~~

~~(d) golfing;~~

~~(e) baseball, football, hockey, volleyball, tennis, basketball, and soccer;~~

~~(f) hunting and fishing;~~

~~(g) boating, canoeing, jet skiing, rafting, kayaking, and parasailing;~~

~~(h) camping and backpacking;~~

~~(i) swimming and diving;~~

~~(j) bowling and ice skating;~~

~~(k) skiing, snowmobiling, snow boarding, and snowshoeing;~~

~~(l) hang gliding and ballooning; and~~

~~(m) motorcycling, four-wheeling, and riding all-terrain vehicles.~~

~~(29)(26)~~ ~~"Tuition" means money paid for instruction, room, or board.~~

~~(30)(27)~~(18) "Use" or "using" includes use, consumption, or storage, other than storage for resale or for use solely outside this state, in the ordinary course of business.

NEW SECTION. **Section 3. Imposition and rate of sales tax and use tax -- exceptions.** (1) A sales tax of ~~4%~~ THE FOLLOWING PERCENTAGES is imposed on sales of the following property or services:

~~(a) prepared food;~~

~~(b) food sold through vending machines;~~

~~(c)~~(A) ~~4% ON alcoholic beverages sold by the drink;~~

~~(d)(B)~~(A) 5% ON accommodations and campgrounds;

~~(e)(C)~~(B) 9% ON the base rental charge for rental vehicles;.

~~(f)(D) 4% ON rental or lease of sporting goods;~~

~~(g)(E) 4% ON guided recreation and sightseeing;~~

~~(h)(F) 4% ON admissions;~~

~~(i)(G) 4% ON camp tuition; and~~

~~(j)(H) 4% ON recreation fees.~~

(2) The sales tax is imposed on the purchaser and must be collected by the seller and paid to the

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department by the seller. The seller holds all sales taxes collected in trust for the state. The sales tax must be applied to the sales price.

(3) (a) For the privilege of using property or services within this state, there is imposed on the person using the following property or services a use tax equal to ~~4%~~ THE FOLLOWING PERCENTAGES of the value of the property or services:

~~(i) prepared food;~~

~~(ii) food sold through vending machines;~~

~~(iii)~~(i) ~~4% ON alcoholic beverages sold by the drink;~~

~~(iv)~~(ii)(I) 5% ON accommodations and campgrounds;

~~(v)~~(iii)(II) 9% ON the base rental charge for rental vehicles;.

~~(vi)~~(iv) ~~4% ON rental or lease of sporting goods;~~

~~(vii)~~(v) ~~4% ON guided recreation and sightseeing;~~

~~(viii)~~(vi) ~~4% ON admissions;~~

~~(ix)~~(vii) ~~4% ON camp tuition; and~~

~~(x)~~(viii) ~~4% ON recreation fees.~~

(b) The use tax is imposed on property or services that were:

(i) acquired outside this state as the result of a transaction that would have been subject to the sales tax had it occurred within this state;

(ii) acquired within the exterior boundaries of an Indian reservation within this state as a result of a transaction that would have been subject to the sales tax had it occurred outside the exterior boundaries of an Indian reservation within this state;

(iii) acquired as the result of a transaction that was not initially subject to the sales tax imposed by subsection (1) or the use tax imposed by subsection (3)(a) but which transaction, because of the buyer's subsequent use of the property, is subject to the sales tax or use tax; or

(iv) rendered as the result of a transaction that was not initially subject to the sales tax or use tax but that because of the buyer's subsequent use of the services is subject to the sales tax or use tax.

(4) For purposes of this section, the value of property must be determined as of the time of acquisition, introduction into this state, or conversion to use, whichever is latest.

(5) The sale of property or services exempt or nontaxable under [sections 2 through ~~41~~ 40] is exempt from the tax imposed in subsections (1) and (3).

NEW SECTION. **Section 4. Presumption of taxability -- value -- rules.** (1) In order to prevent evasion of the sales tax or use tax and to aid in its administration, it is presumed that:

(a) all sales by a person engaging in business are subject to the sales tax or use tax; and

(b) all property bought or sold by any person for delivery into this state is bought or sold for a taxable use within this state.

(2) In determining the amount of use tax due on the use of property or services, it is presumed, in the absence of preponderant evidence of another value, that value means the total amount of property or service or the reasonable value of other consideration paid for the use of the property or service, exclusive of any type of time-price differential. However, in an exchange in which the amount of money paid does not represent the value of the property or service purchased, the use tax must be imposed on the reasonable value of the property or service purchased.

(3) The department shall adopt rules providing for the payment of the sales tax and use tax based on a rounding method.

NEW SECTION. **Section 5. Separate statement of tax -- no advertising to absorb or refund tax -- rules.** (1) If a person collects a tax in excess of the tax imposed by [section 3], both the tax and the excess tax must be remitted to the department.

(2) Except as provided in subsection (4), the sales tax must be stated separately for all sales, except for sales from coin-operated or currency-operated machines.

(3) A person may not advertise, hold out, or state to the public or to any customer that the tax imposed by [sections 2 through ~~41~~ 40] will be absorbed or refunded.

(4) The department may adopt rules permitting sellers the option of stating sales tax based upon a percentage of taxable sales.

NEW SECTION. **Section 6. Liability of user for payment of use tax.** (1) A person within this state who uses property is liable to the state for payment of the use tax if the use tax is payable on the value of the property but has not been paid.

(2) The liability imposed by this section is discharged if the buyer has paid the use tax to the seller for payment to the department.

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NEW SECTION. **Section 7. Collection of sales tax and use tax -- listing of business locations and agents -- severability.** (1) A person engaging in the business of selling property or services subject to taxation under [sections 2 through ~~41~~ 40] shall collect the sales tax from the purchaser and pay the sales tax collected to the department.

(2) A person engaging in business within this state shall, before making any sales subject to [sections 2 through ~~41~~ 40], obtain a seller's permit, as provided in [section ~~19~~ 18], and at the time of making a sale, whether within or outside the state, collect the sales tax imposed by [section 3] from the purchaser and give to the purchaser a receipt, in the manner and form prescribed by rule, for the sales tax paid.

(3) The department may authorize the collection of the sales tax imposed by [section 3] by any retailer who does not maintain a place of business within this state but who, to the satisfaction of the department, is in compliance with the law. When authorized, the person shall collect the use tax upon all property and services that, to the person's knowledge, are for use within this state and subject to taxation under [sections 2 through ~~41~~ 40].

(4) All sales tax and use tax required to be collected and all sales tax and use tax collected by any person under [sections 2 through ~~41~~ 40] constitute a debt owed to this state by the person required to collect the sales tax and use tax.

(5) A person engaging in business within this state that is subject to [sections 2 through ~~41~~ 40] shall provide to the department:

(a) the names and addresses of all of the person's agents operating within this state; and

(b) the location of each of the person's distribution houses or offices, sales houses or offices, and other places of business within this state.

(6) If any application of this section is held invalid, the application to other situations or persons is not affected.

NEW SECTION. **Section 8. Nontaxable transaction certificate -- requirements.** (1) A nontaxable transaction certificate executed by a buyer or lessee must be in the possession of the seller or lessor at the time that a nontaxable transaction occurs.

(2) A nontaxable transaction certificate must contain the information and be in the form prescribed by the department.

(3) Only a buyer or lessee who has registered with the department and whose seller's permit is valid may execute a nontaxable transaction certificate.

(4) If the seller or lessor accepts a nontaxable transaction certificate within the required time and believes in good faith that the buyer or lessee will employ the property or service transferred in a nontaxable manner, the properly executed nontaxable transaction certificate is considered conclusive evidence that the sale is nontaxable.

NEW SECTION. **Section 9. Nontaxable transaction certificate -- form.** (1) The department shall provide for a uniform nontaxable transaction certificate. A purchaser shall use the certificate when purchasing goods or services for resale or for other nontaxable transactions.

(2) At a minimum, the certificate must provide:

(a) the number of the seller's permit issued to the purchaser as provided in [section ~~19~~ 18];

(b) the general character of property or service sold by the purchaser in the regular course of business;

(c) the property or service purchased for resale;

(d) the name and address of the purchaser; and

(e) a signature line for the purchaser.

(3) The department shall adopt rules to provide procedures for application for and provision of a certificate to a person engaging in business within this state prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] that has applied in a timely fashion is issued a certificate prior to [the applicability date of this section].

NEW SECTION. **Section 10. Exemption -- government agencies -- exception.** All sales by or use by the United States or an agency or instrumentality of the United States are exempt from the sales tax and use tax.

NEW SECTION. **Section 11. Exemption -- isolated or occasional sale or lease of property.** The isolated or occasional sale or lease of property by a person that is not regularly engaged in or that does not claim to be engaged in the business of selling or leasing the same or a similar property is exempt from the sales tax and use tax.

~~NEW SECTION. **Section 12. Nontaxability -- food products.** (1) The sale of food or a food service offered or delivered as part of a residential living arrangement lasting more than 30 days and food consumed by a person that is party to the arrangement is exempt from the sales tax and use tax.~~

~~(2) The sale of food or a food service offered by the state or a political subdivision of the state, including school districts and postsecondary colleges and universities, is exempt from the sales tax and use tax.~~

NEW SECTION. **Section 12. Nontaxability -- sale of property for resale.** The sale of property is nontaxable if:

(1) the sale is made to a buyer who delivers a nontaxable transaction certificate to the seller;

(2) the buyer resells the property either by itself or in combination with other property; and

(3) the subsequent sale is in the ordinary course of business and the property will be subject to the sales tax.

NEW SECTION. **Section 13. Nontaxability -- sale of service for resale.** The sale of a service for resale is nontaxable if:

(1) the sale is made to a person who delivers a nontaxable transaction certificate;

(2) the buyer resells the service and separately states the value of the service purchased in the charge for the service in the subsequent sale; and

(3) the subsequent sale is in the ordinary course of business and subject to the sales tax.

NEW SECTION. **Section 14. Nontaxability -- lease for subsequent lease.** The lease of property is nontaxable if:

(1) the lease is made to a lessee who delivers a nontaxable transaction certificate; and

(2) the lessee does not use the property in any manner other than for subsequent lease in the ordinary course of business.

NEW SECTION. **Section 15. Nontaxability -- use of property for leasing.** The value of leased property is not considered in computing the use tax due if the person holding the property for lease:

(1) is engaged in a business that derives a substantial portion of its receipts from leasing or selling

property of the type leased;

(2) does not use the property in any manner other than holding it for lease or sale or leasing or selling it either by itself or in combination with other tangible personal property in the ordinary course of business; and

(3) does not use the property in a manner incidental to the performance of a service.

NEW SECTION. **Section 16. Nontaxability -- nonprofits.** The sale of property or of a service is nontaxable if the seller is an organization that has a tax-exempt designation under the provisions of section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. 501(c)(3), as amended.

NEW SECTION. **Section 17. Credit -- out-of-state taxes.** If a sales, use, or similar tax has been levied by another state or a political subdivision of another state on property that was leased outside this state but that will be used or consumed in this state and the tax was paid by the current user, the amount of tax paid may be credited against any use tax due this state on the same property. The credit may not exceed the sales tax or use tax due this state.

NEW SECTION. **Section 18. Seller's permit.** (1) A person that wishes to engage in business within this state that is subject to [sections 2 through ~~41~~ 40] shall obtain a seller's permit before engaging in business within this state.

(2) Upon an applicant's compliance with [sections 2 through ~~41~~ 40], the department shall issue to the applicant a separate, numbered seller's permit for each location in which the applicant maintains an office or other place of business within Montana. A permit is valid until revoked or suspended but is not assignable. A permit is valid only for the person in whose name it is issued and for the transaction of business at the place designated. The permit must be conspicuously displayed at all times at the place for which it is issued.

(3) The department shall adopt rules to provide procedures for application for and provision of a seller's permit to a person engaging in business within this state that is subject to [sections 2 through ~~41~~ 40] prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] is issued a seller's permit prior to [the applicability date of this section]. The department may adopt rules providing for seasonal permits.

NEW SECTION. **Section 19. Permit application -- requirements -- place of business -- form.** (1)

(a) A person that wishes to engage in the business of making retail sales or providing services in Montana that are subject to [sections 2 through ~~41~~ 40] shall file with the department an application for a permit. If the person has more than one location in which the person maintains an office or other place of business, an application may include multiple locations.

~~(b) A vending machine operator who has more than one vending machine location is considered to have only one place of business for purposes of this section.~~

~~(c)~~(B) An applicant who does not maintain an office or other place of business and who moves from place to place is considered to have only one place of business and shall attach the permit to the applicant's cart, stand, truck, or other merchandising device.

(2) Each person or class of persons required to file a return under [sections 2 through ~~41~~ 40] is required to file an application for a permit.

(3) Each application for a permit must be on a form prescribed by the department and must set forth the name under which the applicant intends to transact business, the location of the applicant's place or places of business, and other information that the department may require. The application must be filed by the owner if the owner is a natural person or by a person authorized to sign the application if the owner is a corporation, partnership, limited liability company, or some other business entity.

NEW SECTION. **Section 20. Revocation or suspension of permit -- appeal.** (1) Subject to the provisions of subsection (2), the department may, for reasonable cause, revoke or suspend any permit held by a person that fails to comply with the provisions of [sections 2 through ~~41~~ 40].

(2) The department shall provide dispute resolution on a proposed revocation or suspension pursuant to 15-1-211.

(3) If a permit is revoked, the department may not issue a new permit except upon application accompanied by reasonable evidence of the intention of the applicant to comply with the provisions of [sections 2 through ~~41~~ 40]. The department may require security in addition to that authorized by [section ~~29~~ 28] in an amount reasonably necessary to ensure compliance with [sections 2 through ~~41~~ 40] as a condition for the issuance of a new permit to the applicant.

(4) A person aggrieved by the department's final decision to revoke a permit, as provided in subsection (1), may appeal the decision to the state tax appeal board within 30 days after the date on which the department issued its final decision.

NEW SECTION. **Section 21. Improper use of subject of purchase obtained with nontaxable transaction certificate -- penalty.** (1) If a purchaser that uses a nontaxable transaction certificate uses the subject of the purchase for a purpose other than one allowed as nontaxable under [sections 2 through ~~41~~ 40], the use is considered a taxable sale as of the time of first use by the purchaser and the sales price is the price that the purchaser paid. If the sole nonexempt use is rental while holding for sale, the purchaser shall include in the sales price the amount of the rental charged. Upon subsequent sale of the property, the seller shall include the entire amount of the sales price, without deduction of amounts previously received as rentals.

(2) A person that uses a certificate for property that will be used for a purpose other than the purpose claimed is subject to a penalty, payable to the department, of $100 for each transaction in which an improper use of a certificate has occurred.

(3) Upon a showing of good cause, the department may abate or waive the penalty or a portion of the penalty

NEW SECTION. **Section 22. Commingling nontaxable certificate goods.** If a purchaser uses a nontaxable transaction certificate with respect to the purchase of fungible goods and commingles these goods with fungible goods that were not purchased with a certificate but that are of such similarity that the identity of the goods in the commingled mass cannot be determined, sales from the mass of commingled goods are considered to be sales of the goods purchased with the certificate until the quantity of commingled goods so equals the quantity of goods originally purchased under the certificate.

NEW SECTION. **Section 23. Liability for payment of tax -- security for retailer without place of business -- penalty.** (1) Liability for the payment of the sales tax and use tax is not extinguished until the taxes have been paid to the department.

(2) A retailer that does not maintain an office or other place of business within this state is liable for the sales tax or use tax in accordance with [sections 2 through ~~41~~ 40] and may be required to furnish adequate security, as provided in [section ~~29~~ 28], to ensure collection and payment of the taxes. When authorized and except as otherwise provided in [sections 2 through ~~41~~ 40], the retailer is liable for the taxes upon all property sold and services provided in this state in the same manner as a retailer who maintains an office or other place of business within this state. The seller's permit provided for in [section ~~19~~ 18] may be canceled at any time if

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the department considers the security inadequate or believes that the taxes can be collected more effectively in another manner.

(3) An agent, canvasser, or employee of a retailer doing business within this state may not sell, solicit orders for, or deliver any property or services within Montana unless the principal, employer, or retailer possesses a seller's permit issued by the department. If an agent, canvasser, or employee violates the provisions of [sections 2 through ~~41~~ 40], the person is subject to a fine of not more than $100 for each separate transaction or event.

NEW SECTION. **Section 24. Application for permission to report on accrual basis -- rules.** (1) A person that has a seller's permit may apply to the department for permission to report and pay the sales tax or use tax on an accrual basis.

(2) The application must be made on a form, prescribed by the department, that contains information that the department may require.

(3) A person may not report or pay the sales tax or use tax on an accrual basis unless the person has received written permission from the department.

(4) The department may adopt rules to implement this section.

NEW SECTION. **Section 25. Returns -- payment -- authority of department.** (1) Except as provided in subsection (2), on or before the 20th day of the month following the calendar quarter in which the transaction subject to the tax imposed by [sections 2 through ~~41~~ 40] occurred, a return, on a form provided by the department, and payment of the tax for the preceding quarter must be filed with the department. Each person engaged in business within this state or using property or services within this state that are subject to tax under [sections 2 through ~~41~~ 40] shall file a return. A person making retail sales at two or more places of business shall file a separate return for each separate place of business.

(2) A person who has been issued a seasonal seller's permit shall file a return and pay the tax on the date or dates set by the department.

(3) (a) For the purposes of the sales tax or use tax, a return must be filed by:

(i) a retailer required to collect the tax; and

(ii) a person that:

(A) purchases any items the storage, use, or other consumption of which is subject to the sales tax or

use tax; and

(B) has not paid the tax to a retailer required to pay the tax.

(b) Each return must be authenticated by the person filing the return or by the person's agent authorized in writing to file the return.

(4) (a) A person required to collect and pay to the department the taxes imposed by [sections 2 through ~~41~~ 40] shall keep records, render statements, make returns, and comply with the provisions of [sections 2 through ~~41~~ 40] and the rules prescribed by the department. Each return or statement must include the information required by the rules of the department.

(b) For the purpose of determining compliance with the provisions of [sections 2 through ~~41~~ 40], the department is authorized to examine or cause to be examined any books, papers, records, or memoranda relevant to making a determination of the amount of tax due, whether the books, papers, records, or memoranda are the property of or in the possession of the person filing the return or another person. In determining compliance, the department may use statistical sampling and other sampling techniques consistent with generally accepted auditing standards. The department may also:

(i) require the attendance of a person having knowledge or information relevant to a return;

(ii) compel the production of books, papers, records, or memoranda by the person required to attend

(iii) implement the provisions of 15-1-703 if the department determines that the collection of the tax is or may be jeopardized because of delay;

(iv) take testimony on matters material to the determination; and

(v) administer oaths or affirmations.

(5) Pursuant to rules established by the department, returns may be computer-generated and electronically filed.

(6) A person with collections of less than $10 in a reporting period is not required to remit a return or payment to the department.

NEW SECTION. **Section 26. Credit for taxes paid on worthless accounts -- taxes paid if accounts collected.** (1) Sales taxes paid on an accrual basis by a person filing a return under [section ~~26~~ 25] on sales found to be worthless and actually deducted by the person as a bad debt for federal income tax purposes may be credited on a subsequent payment of the tax.

(2) Bad debts may be deducted within 12 months after the month in which the bad debt has been

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charged off for federal income tax purposes. "Charged off for federal income tax purposes" includes the charging off of unpaid balances due on accounts as uncollectible or declaring as uncollectible such unpaid balance due on accounts in the case of a seller who is not required to file federal income tax returns.

(3) If an account is subsequently collected, the sales tax must be paid on the amount collected.

(4) A seller may obtain a refund of tax on any amount of bad debt that exceeds the amount of taxable sales within a 12-month period defined by that bad debt.

(5) For purposes of computing a bad debt deduction or reporting a payment received on a previously claimed bad debt, any payments made on a debt or account are applied first to interest, service charges, and any other charges and second to the price of the property or service and sales tax on the property or service, proportionally.

NEW SECTION. **Section 27. Vendor allowance.** (1) A person filing a timely return under [section ~~26~~ 25] may claim a quarterly vendor allowance for each permitted location in the amount of 5% of the tax determined to be payable to the state, not to exceed $1,000 a quarter.

(2) The allowance may be deducted on the return.

(3) A person that files a return or payment after the due date for the return or payment may not claim a vendor allowance.

NEW SECTION. **Section 28. Security -- limitations -- sale of security deposit at auction -- bond.** (1) The department may require a retailer to deposit, with the department, security in a form and amount that the department, by administrative rule, determines is appropriate. The deposit may not be more than twice the estimated average liability for the period for which the return is required to be filed. The amount of security may be increased or decreased by the department, subject to the limitations provided in this section.

(2) (a) If necessary, the department may sell, at public auction, property deposited as security to recover any sales tax or use tax amount required to be collected, including interest and penalties.

(b) Notice of the sale must be served personally upon or sent by certified mail to the person that deposited the security.

(c) After the sale, any surplus above the amount due that is not required as security under this section must be returned to the person that deposited the security.

(3) In lieu of security, the department may require a retailer to file a bond, issued by a surety company

authorized to transact business within this state, to guarantee solvency and responsibility.

(4) In addition to the other requirements of this section, the department may require the corporate officers, directors, or shareholders of a corporation to provide a personal guaranty and assumption of liability for the payment of the tax due under [sections 2 through ~~41~~ 40].

NEW SECTION. **Section 29. Examination of return -- adjustments -- delivery of notices and demands.** (1) If the department determines that the amount of tax due is different from the amount reported, the amount of tax computed on the basis of the examination conducted pursuant to [section ~~26~~ 25] constitutes the tax to be paid.

(2) If the tax due exceeds the amount of tax reported as due on the taxpayer's return, the excess must be paid to the department within 30 days after notice of the amount and demand for payment is mailed or delivered to the person making the return unless the taxpayer files a timely objection as provided in 15-1-211. If the amount of the tax found due by the department is less than that reported as due on the return and has been paid, the excess must be credited or, if no tax liability exists or is likely to exist, refunded to the person making the return.

(3) The notice and demand provided for in this section must contain a statement of the computation of the tax and interest and must be sent by mail to the taxpayer at the address given in the taxpayer's return, if any, or to the taxpayer's last-known address.

(4) A taxpayer filing an objection to the demand for payment is subject to and governed by the uniform dispute review procedure provided in 15-1-211.

NEW SECTION. **Section 30. Penalties and interest for violation.** If a person fails to file a return on or before the due date or fails to pay a tax on or before a due date, the person must be assessed penalty and interest as provided in 15-1-216.

NEW SECTION. **Section 31. Authority to collect delinquent taxes.** (1) (a) The department shall collect taxes that are delinquent as determined under [sections 2 through ~~41~~ 40].

(b) If a tax imposed by [sections 2 through ~~41~~ 40] or any portion of the tax is not paid when due, the department may issue a warrant for distraint as provided in Title 15, chapter 1, part 7.

(2) In addition to any other remedy, in order to collect delinquent taxes after the time for appeal has

expired, the department may direct the offset of tax refunds or other funds due the taxpayer from the state, except wages subject to the provisions of 25-13-614 and retirement benefits.

(3) As provided in 15-1-705, the taxpayer has the right to a review of the tax liability prior to any offset by the department.

(4) The department may file a claim for state funds on behalf of the taxpayer if a claim is required before funds are available for offset.

NEW SECTION. **Section 32. Interest on deficiency.** Interest accrues on unpaid or delinquent taxes as provided in 15-1-216.

NEW SECTION. **Section 33. Limitations.** (1) Except in the case of a person that purposely or knowingly, as those terms are defined in 45-2-101, files a false or fraudulent return violating the provisions of [sections 2 through ~~41~~ 40], a deficiency may not be assessed or collected with respect to a quarter for which a return is filed unless the notice of additional tax proposed to be assessed is mailed to or personally served upon the taxpayer within 5 years from the date that the return was filed. For purposes of this section, a return filed before the last day prescribed for filing is considered to be filed on the last day.

(2) If, before the expiration of the 5-year period prescribed in subsection (1) for assessment of the tax, the taxpayer consents in writing to an assessment after expiration of the 5-year period, a deficiency may be assessed at any time prior to the expiration of the period to which consent was given.

NEW SECTION. **Section 34. Refunds -- interest -- limitations.** (1) A claim for a refund or credit as a result of overpayment of taxes collected under [sections 2 through ~~41~~ 40] must be filed within 5 years of the date that the return was due, without regard to any extension of time for filing.

(2) (a) Interest paid by the department on an overpayment must be paid or credited at the same rate as the rate charged on delinquent taxes under 15-1-216.

(b) Except as provided in subsection (2)(c), interest must be paid from the date that the return was due or the date of overpayment, whichever is later. Interest does not accrue during any period in which the processing of a claim is delayed more than 30 days because the taxpayer has not furnished necessary information.

(c) The department is not required to pay interest if:

(i) the overpayment is refunded or credited within 6 months of the date that a claim was filed; or

(ii) the amount of overpayment and interest does not exceed $1.

NEW SECTION. **Section 35. Administration -- rules.** The department shall:

(1) administer and enforce the provisions of [sections 2 through ~~41~~ 40];

(2) cause to be prepared and distributed forms and information that may be necessary to administer the provisions of [sections 2 through ~~41~~ 40]; and

(3) adopt rules that may be necessary or appropriate to administer and enforce the provisions of [sections 2 through ~~41~~ 40].

NEW SECTION. **Section 36. Revocation of corporate license -- appeal.** (1) If a corporation authorized to do business within this state and required to pay the taxes imposed under [sections 2 through ~~41~~ 40] fails to comply with any of the provisions of [sections 2 through ~~41~~ 40] or any rule of the department, the department may, for reasonable cause, certify to the secretary of state a copy of an order finding that the corporation has failed to comply with specific statutory provisions or rules.

(2) The secretary of state shall, upon receipt of the certification, revoke the certificate authorizing the corporation to do business within this state and may issue a new certificate only when the corporation has obtained from the department an order finding that the corporation has complied with its obligations under [sections 2 through ~~41~~ 40].

(3) An order authorized in this section may not be made until the corporation is given an opportunity for dispute resolution as provided in 15-1-211.

(4) A final decision of the department may be appealed to the state tax appeal board.

NEW SECTION. **Section 37. Taxpayer quitting business -- liability of successor.** (1) (a) All taxes payable under [sections 2 through ~~41~~ 40] are due and payable immediately whenever a taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(b) The taxpayer shall make a return and pay the taxes due within 10 days after the taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(2) Except as provided in subsection (4), a person that becomes a successor is liable for the full amount of the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient to pay any tax due until

the taxpayer produces either a receipt from the department showing payment in full of any tax due or a statement from the department that tax is not due.

(3) If a tax is due but has not been paid as provided in subsection (1)(b), the successor is liable for the payment of the full amount of tax. The payment of the tax by the successor is considered to be a payment upon the sales price, and if the payment is greater in amount than the sales price, the amount of the difference becomes a debt due to the successor from the taxpayer owing the tax under subsection (1).

(4) (a) A successor is not liable for any tax due from the person that the successor acquired a business or stock of goods from if:

(i) the successor gives written notice to the department of the acquisition; and

(ii) an assessment is not issued by the department against the former operator of the business within 6 months of receipt of the notice from the successor.

(b) If an assessment is issued by the department, a copy of the assessment must also be mailed to the successor, or if an assessment is not mailed to the successor, the successor is not liable for the tax due.

NEW SECTION. **Section 38. Tax as debt.** (1) The tax imposed by [sections 2 through ~~41~~ 40] and related interest and penalties become a personal debt of the person required to file a return from the time that the liability arises, regardless of when the time for payment of the liability occurs.

(2) (a) This section applies to those corporate officers, directors, or shareholders required by the department to personally guarantee the payment of the taxes for their corporations.

(b) The officer or employee of a corporation whose duty it is to collect, truthfully account for, and pay to the state the amounts imposed by [sections 2 through ~~41~~ 40] and who fails to pay the tax is liable to the state for the amounts imposed by [sections 2 through ~~41~~ 40] and the penalty and interest due on the amounts.

NEW SECTION. **Section 39. Information -- confidentiality -- agreements with another state.** (1) (a) Except as provided in subsections (2) through (4), it is unlawful for an employee of the department or any other public official or public employee to divulge or otherwise make known information that is disclosed in a report or return required to be filed under [sections 2 through ~~41~~ 40] or information that concerns the affairs of the person making the return and that is acquired from the person's records, officers, or employees in an examination or audit.

(b) This section may not be construed to prohibit the department from publishing statistics if they are

classified in a way that does not disclose the identity and content of any particular report or return. A person violating the provisions of this section is subject to the penalty provided in 15-30-303 or 15-31-511 for violating the confidentiality of individual income tax or corporation license information.

(2) (a) The department may enter into an agreement with the taxing officials of another state for the interpretation and administration of the laws of their state that provide for the collection of a sales tax or use tax in order to promote fair and equitable administration of the laws and to eliminate double taxation.

(b) In order to implement the provisions of [sections 2 through ~~41~~ 40], the department may furnish information on a reciprocal basis to the taxing officials of another state if the information remains confidential under statutes within the state receiving the information that are similar to this section.

(3) In order to facilitate processing of returns and payment of taxes required by [sections 2 through ~~41~~ 40], the department may contract with vendors and may disclose data to the vendors. The data disclosed must be administered by the vendor in a manner consistent with this section.

(4) This section may not be construed to limit the investigative authority of the legislative branch, as provided in 5-11-106, 5-12-303, or 5-13-309.

NEW SECTION. **Section 40. Sales tax and use tax proceeds.** All money collected under [sections 2 through ~~41~~ 40] must be deposited by the department into the general fund.

NEW SECTION. **Section 41. Capital gains credit.** An individual taxpayer is allowed a credit against the taxes imposed by 15-30-103 in an amount equal to 1% of the taxpayer's net capital gains FOR TAX YEARS ~~2004~~ 2005 AND ~~2005~~ 2006 AND 2% OF THE TAXPAYER'S NET CAPITAL GAINS FOR TAX YEARS BEGINNING AFTER 2006, as shown on the taxpayer's individual income tax return filed pursuant to 15-30-142. The credit allowed under this section may not exceed the taxpayer's income tax liability.

Section 42. Section 13-37-218, MCA, is amended to read:

"13-37-218. Limitations on receipts from political committees. A candidate for the state senate may receive no more than ~~$1,000~~ ~~$2,150~~ ~~$2,300~~ $2,400 in total combined monetary contributions from all political committees contributing to the candidate's campaign, and a candidate for the state house of representatives may receive no more than ~~$600~~ ~~$1,300~~ $1,400 in total combined monetary contributions from all political committees contributing to the candidate's campaign. The limitations in this section must be multiplied by the inflation factor

as defined in 15-30-101, for the year in which general elections are held. The resulting figure must be rounded off to the nearest $50 increment. The commissioner shall publish the revised limitations as a rule. In-kind contributions must be included in computing these limitation totals. The limitation provided in this section does not apply to contributions made by a political party eligible for a primary election under 13-10-601."

Section 43. Section 15-30-101, MCA, is amended to read:

"15-30-101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

(1) "Base year structure" means the following elements of the income tax structure:

(a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of the taxable year;

(b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect on June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the ~~1967~~ 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

(a) that is treated as an association for federal income tax purposes;

(b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not in effect; and

(c) that is not a disregarded entity.

(4) "Department" means the department of revenue.

(5) "Disregarded entity" means a business entity:

(a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as those regulations may be labeled or amended; or

(b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

(6) "Dividend" means:

(a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

(b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

(7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

(8) "Foreign government" means any jurisdiction other than the one embraced within the United States, its territories, and its possessions.

(9) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding unemployment compensation included in federal gross income under the provisions of section 85 of the Internal Revenue Code (26 U.S.C. 85) as amended.

(10) "Inflation factor" means a number determined for each tax year by dividing the consumer price index for June of the tax year by the consumer price index for June ~~1980~~ ~~2006~~ ~~2004~~ 2005.

(11) "Information agents" includes all individuals and entities acting in whatever capacity, including lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all officers and employees of the state or of any municipal corporation or political subdivision of the state, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits and income with respect to which any person or fiduciary is taxable under this chapter.

(12) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be labeled or further amended. References to specific provisions of the Internal Revenue Code mean those provisions as they may be otherwise labeled or further amended.

(13) "Knowingly" is as defined in 45-2-101.

(14) "Limited liability company" means a limited liability company, domestic limited liability company, or a foreign limited liability company as defined in 35-8-102.

(15) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

(16) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

(a) a resident taxpayer on a lottery ticket; or

(b) a nonresident taxpayer on a lottery ticket purchased in Montana.

(17) (a) "Montana source income" means:

(i) wages, salary, tips, and other compensation for services performed in the state or while a resident of the state;

(ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise transferred while a resident of the state, or used or held in connection with a trade, business, or occupation carried on in the state;

(iii) gain attributable to the sale or other transfer of intangible property received or accrued while a resident of the state;

(iv) interest received or accrued while a resident of the state or from an installment sale of real property or tangible commercial or business personal property located in the state;

(v) dividends received or accrued while a resident of the state;

(vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state or while a resident of the state;

(vii) net income or loss derived from farming activities carried on in the state or while a resident of the state;

(viii) net rents from real property and tangible personal property located in the state or received or accrued while a resident of the state;

(ix) net royalties from real property and from tangible real property to the extent the property is used in the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the royalty period in the tax year and the denominator of which is the number of days of physical location of the property everywhere during all royalty periods in the tax year. If the physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in which it was located at the time the person paying the royalty obtained possession.

(x) patent royalties to the extent the person paying them employs the patent in production, fabrication, manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are received or accrued while a resident of the state;

(xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties are received or accrued while a resident of the state;

(xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiv) social security benefits received or accrued while a resident of the state;

(xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits received while a resident of the state; and

(xvi) any other income attributable to the state, including but not limited to lottery winnings, state and federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

(b) The term does not include:

(i) compensation for military service of members of the armed services of the United States who are not Montana residents and who are residing in Montana solely by reason of compliance with military orders and does not include income derived from their personal property located in the state except with respect to personal property used in or arising from a trade or business carried on in Montana; or

(ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

(18) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this chapter.

(19) "Nonresident" means a natural person who is not a resident.

(20) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(21) "Partner" means a member of a partnership or a manager or member of any other entity, if treated as a partner for federal income tax purposes.

(22) "Partnership" means a general or limited partnership, limited liability partnership, limited liability company, or other entity, if treated as a partnership for federal income tax purposes.

(23) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

(24) "Pension and annuity income" means:

(a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon the cessation of employment;

(b) payments received as the result of past service and cessation of employment in the uniformed services of the United States;

(c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are included in federal adjusted gross income;

(d) distributions from individual retirement, deferred compensation, and self-employed retirement plans recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

(e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular employment.

(25) "Purposely" is as defined in 45-2-101.

(26) "Received", for the purpose of computation of taxable income under this chapter, means received or accrued, and the term "received or accrued" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(27) "Resident" applies only to natural persons and includes, for the purpose of determining liability to the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the state of Montana and any other person who maintains a permanent place of abode within the state even though temporarily absent from the state and who has not established a residence elsewhere.

(28) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is in effect.

(29) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in proportion to their previous holdings.

(30) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and exemptions provided for in this chapter.

(31) ~~"Taxable year" or "tax year"~~ "Tax year" means the taxpayer's taxable year for federal income tax purposes.

(32) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation.

Section 44. Section 15-30-103, MCA, is amended to read:

"15-30-103. Rate of tax. (1) There ~~shall~~ must be levied, collected, and paid for each ~~taxable~~ tax year ~~commencing on or after December 31, 1968,~~ upon the taxable income of ~~every~~ each taxpayer subject to the tax, after making allowance for exemptions and deductions as ~~hereinafter~~ provided in this chapter, a tax on the ~~following~~ brackets of taxable income as follows:

~~(a) for tax year 2005, the following rates:~~

~~(i)~~(A) on the first ~~$2,800~~ $2,300 of taxable income or any part of that income, 1%;

~~(ii)~~(B) on the next ~~$1,400~~ $1,800 of taxable income or any part of that income, 2%;

~~(iii)~~(C) on the next ~~$2,400~~ $2,100 of taxable income or any part of that income, 3%;

~~(iv)~~(D) on the next ~~$2,600~~ $2,200 of taxable income or any part of that income, 4%;

~~(v)~~(E) on the next ~~$3,200~~ $2,400 of taxable income or any part of that income, 5%;

~~(vi)~~(F) on the next ~~$3,000~~ $3,100 of taxable income or any part of that income, 6%;

~~(vii)~~(G) on any taxable income in excess of ~~$15,600~~ $13,900 or any part of that income, 6.9%;.

~~(b) for tax years beginning after December 31, 2005, as adjusted under subsection (2), at the following rates:~~

~~(a)(i) on the first $1,000 $3,400 of taxable income or any part thereof of that income, 2% 1%;~~

~~(b)(ii) on the next $1,000 $2,100 of taxable income or any part thereof of that income, 3% 2%;~~

~~(c)(iii) on the next $2,000 $2,400 of taxable income or any part thereof of that income, 4% 3%;~~

~~(d)(iv) on the next $2,000 $3,000 of taxable income or any part thereof of that income, 5% 4%;~~

~~(e)(v) on the next $2,000 $2,300 of taxable income or any part thereof of that income, 6% 5%;~~

~~(f)(vi) on the next $2,000 $2,300 of taxable income or any part thereof of that income, 7% 6%;~~

~~(g) on the next $4,000 of taxable income or any part thereof, 8%;~~

~~(h) on the next $6,000 of taxable income or any part thereof, 9%;~~

~~(i) on the next $15,000 of taxable income or any part thereof, 10%;~~

~~(j)~~(vii) ~~on any taxable income in excess of $35,000~~ $15,500 ~~or any part thereof~~ of that income, ~~11%~~ 6.9%.

(2) ~~By For tax years beginning after December 31, 2005, by~~ BY November 1 of each year, the department shall multiply the bracket amount contained in subsection (1)~~(b)~~ by the inflation factor for that ~~taxable~~ tax year and round the cumulative brackets to the nearest $100. The resulting adjusted brackets are effective for that ~~taxable~~ tax year and ~~shall~~ must be used as the basis for imposition of the tax in subsection (1)~~(b)~~ of this section."

Section 45. Section 15-30-112, MCA, is amended to read:

"15-30-112. Exemptions. (1) Except as provided in subsection (6), in the case of an individual, the exemptions provided by subsections (2) through (5) ~~shall~~ must be allowed as deductions in computing taxable income.

(2) (a) An exemption of ~~$800 $1,950 $1,840~~ $1,900 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for the taxpayer~~ all taxpayers.

(b) An additional exemption of ~~$800 $1,950 $1,840~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(3) (a) An additional exemption of ~~$800 $1,950 $1,840~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the taxpayer if ~~he~~ the taxpayer has attained the age of 65 before the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800 $1,950 $1,840~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse has attained the age of 65 before the close of ~~such taxable~~ the tax year and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(4) (a) An additional exemption of ~~$800 $1,950~~ ~~$1,840~~ $1,900 ~~shall be~~ is allowed for ~~taxable years~~

~~beginning after December 31, 1978, for~~ the taxpayer if ~~he~~ the taxpayer is blind at the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800~~ ~~$1,950~~ ~~$1,840~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse is blind and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, has ~~no~~ does not have gross income and is not the dependent of another taxpayer. For the purposes of this subsection (4)(b), the determination of whether the spouse is blind ~~shall~~ must be made as of the close of the ~~taxable~~ tax year of the taxpayer, except that if the spouse dies during ~~such taxable~~ the tax year, ~~such~~ the determination ~~shall~~ must be made as of the time of ~~such~~ death.

(c) For purposes of this subsection (4), an individual is blind only if ~~his~~ the person's central visual acuity does not exceed 20/200 in the better eye with correcting lenses or if ~~his~~ visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision ~~such~~ to an extent that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(5) (a) An exemption of ~~$800~~ ~~$1,950~~ ~~$1,840~~ $1,900 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for~~ each dependent:

(i) whose gross income for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins is less than $800; or

(ii) who is a child of the taxpayer and who:

(A) has not attained the age of 19 years at the close of the calendar year in which the ~~taxable~~ tax year of the taxpayer begins; or

(B) is a student.

(b) ~~No~~ An exemption ~~shall be~~ is not allowed under this subsection for ~~any~~ a dependent who has made a joint return with ~~his~~ the dependent's spouse for the ~~taxable~~ tax year beginning in the calendar year in which the ~~taxable~~ tax year of the taxpayer begins.

(c) For purposes of subsection (5)(a)(ii), the term "child" means an individual who is a son, stepson, daughter, or stepdaughter of the taxpayer.

(d) For purposes of subsection (5)(a)(ii)(B), the term "student" means an individual who, during each of 5 calendar months during the calendar year in which the ~~taxable~~ tax year of the taxpayer begins:

(i) is a full-time student at an educational institution; or

(ii) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited

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agent of an educational institution or of a state or political subdivision of a state. For purposes of this subsection (5)(d)(ii), the term "educational institution" means only an educational institution ~~which~~ that normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

(6) The department, by November 1 of each year, shall multiply all the exemptions provided in this section by the inflation factor for that ~~taxable~~ tax year and round the product to the nearest $10. The resulting adjusted exemptions are effective for that ~~taxable~~ tax year and ~~shall~~ must be used in calculating the tax imposed in 15-30-103."

Section 46. Section 15-30-121, MCA, is amended to read:

"15-30-121. Deductions allowed in computing net income. (1) In computing net income, there are allowed as deductions:

(a) the items referred to in sections 161, including the contributions referred to in 33-15-201(5)(b), and 211 of the Internal Revenue Code of 1954 (26 U.S.C. 161 and 211), or as sections 161 and 211 are labeled or amended, subject to the following exceptions, which are not deductible:

(i) items provided for in 15-30-123;

(ii) state income tax paid;

(iii) premium payments for medical care as provided in subsection (1)(g)(i);

(iv) long-term care insurance premium payments as provided in subsection (1)(g)(ii);

(b) federal income tax paid within the tax year, not to exceed $5,000 for each taxpayer filing singly, head of household, or married filing separately or $10,000 if married and filing jointly;

(c) expenses of household and dependent care services as outlined in subsections (1)(c)(i) through (1)(c)(iii) and (2) and subject to the limitations and rules as set out in subsections (1)(c)(iv) through (1)(c)(vi), as follows:

(i) expenses for household and dependent care services necessary for gainful employment incurred for:

(A) a dependent under 15 years of age for whom an exemption can be claimed;

(B) a dependent as allowable under 15-30-112(5), except that the limitations for age and gross income do not apply, who is unable to provide self-care because of physical or mental illness; and

(C) a spouse who is unable to provide self-care because of physical or mental illness;

(ii) employment-related expenses incurred for the following services, but only if the expenses are incurred to enable the taxpayer to be gainfully employed:

(A) household services that are attributable to the care of the qualifying individual; and

(B) care of an individual who qualifies under subsection (1)(c)(i);

(iii) expenses incurred in maintaining a household if over half of the cost of maintaining the household is furnished by an individual or, if the individual is married during the applicable period, is furnished by the individual and the individual's spouse;

(iv) the amounts deductible in subsections (1)(c)(i) through (1)(c)(iii), subject to the following limitations:

(A) a deduction is allowed under subsection (1)(c)(i) for employment-related expenses incurred during the year only to the extent that the expenses do not exceed $4,800;

(B) expenses for services in the household are deductible under subsection (1)(c)(i) as employment-related expenses only if they are incurred for services in the taxpayer's household, except that employment-related expenses incurred for services outside the taxpayer's household are deductible, but only if incurred for the care of a qualifying individual described in subsection (1)(c)(i)(A) and only to the extent that the expenses incurred during the year do not exceed:

(I) $2,400 in the case of one qualifying individual;

(II) $3,600 in the case of two qualifying individuals; and

(III) $4,800 in the case of three or more qualifying individuals;

(v) if the combined adjusted gross income of the taxpayers exceeds $18,000 for the tax year during which the expenses are incurred, the amount of the employment-related expenses incurred, to be reduced by one-half of the excess of the combined adjusted gross income over $18,000;

(vi) for purposes of this subsection (1)(c):

(A) married couples shall file a joint return or file separately on the same form;

(B) if the taxpayer is married during any period of the tax year, employment-related expenses incurred are deductible only if:

(I) both spouses are gainfully employed, in which case the expenses are deductible only to the extent that they are a direct result of the employment; or

(II) the spouse is a qualifying individual described in subsection (1)(c)(i)(C);

(C) an individual legally separated from the individual's spouse under a decree of divorce or of separate maintenance may not be considered as married;

(D) the deduction for employment-related expenses must be divided equally between the spouses when filing separately on the same form;

(E) payment made to a child of the taxpayer who is under 19 years of age at the close of the tax year and payments made to an individual with respect to whom a deduction is allowable under 15-30-112(5) are not deductible as employment-related expenses;

(d) in the case of an individual, political contributions determined in accordance with the provisions of section 218(a) and (b) of the Internal Revenue Code (now repealed) that were in effect for the tax year ended December 31, 1978;

(e) that portion of expenses for organic fertilizer and inorganic fertilizer produced as a byproduct allowed as a deduction under 15-32-303 that was not otherwise deducted in computing taxable income;

(f) contributions to the child abuse and neglect prevention program provided for in 52-7-101, subject to the conditions set forth in 15-30-156;

(g) the entire amount of premium payments made by the taxpayer, except premiums deducted in determining Montana adjusted gross income, or for which a credit was claimed under 15-30-128, for:

(i) insurance for medical care, as defined in 26 U.S.C. 213(d), for coverage of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer; and

(ii) long-term care insurance policies or certificates that provide coverage primarily for any qualified long-term care services, as defined in 26 U.S.C. 7702B(c), for:

(A) the benefit of the taxpayer for tax years beginning after December 31, 1994; or

(B) the benefit of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer for tax years beginning after December 31, 1996;

(h) light vehicle registration fees, as provided for in 61-3-560 through 61-3-562, paid during the tax year; and

(i) per capita livestock fees imposed pursuant to 15-24-921, 15-24-922, 81-6-104, 81-6-204, 81-6-209, 81-7-118, or 81-7-201.

(2) (a) Subject to the conditions of subsection (1)(c), a taxpayer who operates a family day-care home or a group day-care home, as these terms are defined in 52-2-703, and who cares for the taxpayer's own child and at least one unrelated child in the ordinary course of business may deduct employment-related expenses considered to have been paid for the care of the child.

(b) The amount of employment-related expenses considered to have been paid by the taxpayer is equal

to the amount that the taxpayer charges for the care of a child of the same age for the same number of hours of care. The employment-related expenses apply regardless of whether any expenses actually have been paid. Employment-related expenses may not exceed the amounts specified in subsection (1)(c)(iv)(B).

(c) Only a day-care operator who is licensed and registered as required in 52-2-721 is allowed the deduction under this subsection (2)."

Section 47. Section 15-30-122, MCA, is amended to read:

"15-30-122. Standard deduction. (1) A standard deduction equal to 20% of adjusted gross income is allowed if elected by the taxpayer on a return. The standard deduction is in lieu of all deductions allowed by 15-30-121. The minimum standard deduction is ~~$665 $1,620 $1,530~~ $1,580, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$1,500 $3,650 $3,460~~ $3,560, as adjusted under the provisions of subsection (2). However, in the case of a single joint return of husband and wife or in the case of a single individual who qualifies to file as a head of household on the federal income tax return, the minimum standard deduction is ~~$1,330~~ twice the amount of the minimum standard deduction for a single return, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$3,000~~ twice the amount of the maximum standard deduction for a single return, as adjusted under the provisions of subsection (2). The standard deduction may not be allowed to either the husband or the wife if the tax of one of the spouses is determined without regard to the standard deduction. For purposes of this section, the determination of whether an individual is married must be made as of the last day of the tax year unless one of the spouses dies during the tax year, in which case the determination must be made as of the date of death.

(2) By November 1 of each year, the department shall multiply both the minimum and the maximum standard deduction for single returns by the inflation factor for that tax year and round the product to the nearest $10. ~~The minimum and maximum standard deduction for joint returns and qualified head of household returns must be twice the amount of the minimum and maximum standard deduction for single returns.~~ The resulting adjusted deductions are effective for that tax year and must be used in calculating the tax imposed in 15-30-103."

Section 48. Section 15-30-142, MCA, is amended to read:

"15-30-142. Returns and payment of tax -- penalty and interest -- refunds -- credits. (1) For be-

resident and nonresident taxpayers, each single individual and each married individual not filing a joint return with a spouse and having a gross income for the tax year of more than ~~$1,500~~ ~~$3,650~~ ~~$3,460~~ $3,560, as adjusted under the provisions of subsection (7), and married individuals not filing separate returns and having a combined gross income for the tax year of more than ~~$3,000~~ ~~$7,300~~ ~~$6,920~~ $7,120, as adjusted under the provisions of subsection (7), are liable for a return to be filed on forms and according to rules that the department may prescribe. The gross income amounts referred to in the preceding sentence must be increased by ~~$800~~ ~~$1,950~~ ~~$1,840~~ $1,900, as adjusted under the provisions of 15-30-112(6), for each additional personal exemption allowance that the taxpayer is entitled to claim for the taxpayer and the taxpayer's spouse under 15-30-112(3) and (4).

(2) In accordance with instructions set forth by the department, each taxpayer who is married and living with husband or wife and is required to file a return may, at the taxpayer's option, file a joint return with husband or wife even though one of the spouses has neither gross income nor deductions. If a joint return is made, the tax must be computed on the aggregate taxable income and the liability with respect to the tax is joint and several. If a joint return has been filed for a tax year, the spouses may not file separate returns after the time for filing the return of either has expired unless the department consents.

(3) If a taxpayer is unable to make the taxpayer's own return, the return must be made by an authorized agent or by a guardian or other person charged with the care of the person or property of the taxpayer.

(4) All taxpayers, including but not limited to those subject to the provisions of 15-30-202 and 15-30-241, shall compute the amount of income tax payable and shall, at the time of filing the return required by this chapter, pay to the department any balance of income tax remaining unpaid after crediting the amount withheld, as provided by 15-30-202, and any payment made by reason of an estimated tax return provided for in 15-30-241. However, the tax computed must be greater by $1 than the amount withheld and paid by estimated return as provided in this chapter. If the amount of tax withheld and the payment of estimated tax exceed by more than $1 the amount of income tax as computed, the taxpayer is entitled to a refund of the excess.

(5) As soon as practicable after the return is filed, the department shall examine and verify the tax.

(6) If the amount of tax as verified is greater than the amount paid, the excess must be paid by the taxpayer to the department within 60 days after notice of the amount of the tax as computed, with interest added as provided in 15-1-216. In that case, there may not be a penalty because of the understatement if the deficiency is paid within 60 days after the first notice of the amount is mailed to the taxpayer.

(7) By November 1 of each year, the department shall multiply the minimum amount of gross income

necessitating the filing of a return by the inflation factor for the tax year. These adjusted amounts are effective for that tax year, and persons who have gross incomes less than these adjusted amounts are not required to file a return.

(8) Individual income tax forms distributed by the department for each tax year must contain instructions and tables based on the adjusted base year structure for that tax year."

SECTION 49. SECTION 16-11-111, MCA, IS AMENDED TO READ:

"16-11-111. Cigarette sales tax -- exemption for sale to tribal member. (1) (a) A tax on the purchase of cigarettes for consumption, use, or any purpose other than resale in the regular course of business is imposed and must be precollected by the wholesaler and paid to the state of Montana. The tax is ~~18~~ ~~70~~ ~~60~~ 70 cents on each package containing 20 cigarettes. ~~and, when~~ Whenever packages contain other than 20 cigarettes, there is a tax on each cigarette equal to 1/20th the tax on a package containing 20 cigarettes.

(b) The tax computed under subsection (1)(a) applies to illegally packaged cigarettes under 16-11-

(2) The tax imposed in subsection (1) does not apply to quota cigarettes.

(3) Subject to the refund or credit provided in subsection (4), the tax must be precollected on all cigarettes entering a Montana Indian reservation.

(4) Pursuant to the procedure provided in subsection (5), a wholesaler making a sale of cigarettes to a retailer within the boundaries of a Montana Indian reservation may apply to the department for a refund or credit for taxes precollected on cigarettes sold by the retailer to a member of the federally recognized Indian tribe or tribes on whose reservation the sale is made. A wholesaler who does not file a claim within 1 year of the shipment date forfeits the refund or credit.

(5) The distribution of tax-free cigarettes to a tribal member must be implemented through a system of preapproved wholesaler shipments. A licensed Montana wholesaler shall contact the department for approval prior to the shipment of the untaxed cigarettes. The department may authorize sales based on whether the quota, as established in a cooperative agreement between the department and an Indian tribe or as set out in this chapter, has been met. If authorized as a tax-exempt sale, the wholesaler, upon providing proof of order and delivery to a retailer within the boundaries of a Montana Indian reservation selling cigarettes to members of a federally recognized tribe or tribes of that reservation, must be given a ~~credit or~~ refund or credit. Once the quota has been filled, the department shall immediately notify all affected wholesalers that further sales on that reservation must be taxed and that a claim for a refund or credit will not be honored for the remainder of the

quota period. Quota allocations are not transferable between quota periods or between reservations.

(6) The total amount of refunds or credits allowed by the department to all wholesalers claiming the refund or credit under subsection (4) for any month may not exceed an amount that is equal to the tax due on the quota allocation. The department shall determine the amount of refunds or credits for each Indian reservation at the beginning of each fiscal year, using the most recent census data available from the bureau of Indian affairs or as provided in a cooperative agreement with the tribe or tribes of the Indian reservation."

SECTION 50. SECTION 16-11-114, MCA, IS AMENDED TO READ:

"**16-11-114. Insignia discount.** Each licensed wholesaler is entitled to purchase an insignia at full face value less the following percentage of the face value upon payment for the insignia as defrayment of the costs of affixing insignia and precollecting the tax on behalf of the state of Montana:

(1) ~~6%~~ ~~1.5%~~ 1.66% for the first 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month;

(2) ~~4%~~ ~~1%~~ 1.11% for the next 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month; and

(3) ~~3%~~ ~~0.75%~~ 0.83% for purchases in excess of 5,160 cartons in any calendar month."

SECTION 51. SECTION 16-11-119, MCA, IS AMENDED TO READ:

"16-11-119. Disposition of taxes. Cigarette taxes collected under the provisions of 16-11-111 must, in accordance with the provisions of 15-1-501, be ~~allocated~~ deposited as follows:

(1) ~~The amount of 11.11% of the cigarette tax collected on each package of cigarettes must be deposited~~ ~~3.2%~~ ~~3.7%~~ 3.1% in the state special revenue fund to the credit of the department of public health and human services for the operation and maintenance of state veterans' nursing homes~~.~~;

(2) ~~The amount of 73.04% must, in accordance with the provisions of 15-1-501, be deposited~~ ~~92.3%~~ ~~21.9%~~ 92.6% in the state general fund~~.~~; ~~and~~ AND

(3) ~~The amount of 15.85% must, in accordance with the provisions of 15-1-501, be deposited~~ ~~4.5%~~ ~~5.2%~~ 4.3% in the long-range building program account provided for in 17-7-205~~; AND.~~

~~(4) 69.2% IN THE STATE SPECIAL REVENUE FUND TO THE CREDIT OF THE DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES.~~"

SECTION 52. SECTION 16-11-201, MCA, IS AMENDED TO READ:

"16-11-201. Definitions. As used in this part, the following definitions apply, unless the context requires otherwise:

(1) "Moist snuff" means any finely cut, ground, or powdered tobacco, other than dry snuff, that is intended to be placed in the oral cavity.

(2) "Retailer" means any person other than a wholesaler who is engaged in the business of selling tobacco products to the ultimate consumer.

~~(2)~~(3) "Sale" or "sell" means any transfer of tobacco products for a consideration, exchange, barter or offer for sale, or distribution, in any manner or by any means.

~~(3)~~(4) "Tobacco product" means a substance other than cigarettes that is intended for human consumption and that contains tobacco.

~~(4)~~(5) "Wholesale price" means the established price for which a manufacturer sells a tobacco product to a wholesaler or any other person before any discount or other reduction.

~~(5)~~(6) "Wholesaler" means any person who purchases tobacco products directly from the manufacturer or from any other person who purchases from the manufacturer and who acquires the products for sale to retail dealers."

SECTION 53. SECTION 16-11-202, MCA, IS AMENDED TO READ:

"16-11-202. Tax on sale of tobacco other than cigarettes -- imposed on retail consumer -- payment of tax. (1) All taxes paid pursuant to the provisions of this section are considered to be direct taxes on the retail consumer, precollected for the purpose of convenience and facility only. When the tax is paid by any wholesaler person, the payment is considered as an advance payment and must be added to the price of tobacco products and recovered from the ultimate consumer or user. ~~Any~~ A person selling tobacco products at retail shall state or separately display in the premises where the products are sold a notice of the tax included in the selling price and charged or payable pursuant to this section. The provisions of this section do not affect the method of collection of the tax as provided in this part.

(2) There must be collected and paid to the state of Montana a tax of ~~12 1/2%~~ 25% of the wholesale price, to the wholesaler, of all tobacco products, other than moist snuff ~~to the wholesaler~~. The tax on moist snuff is ~~56~~ 35 cents an ounce based upon the net weight of the package listed by the manufacturer. For packages of moist snuff that are less than or greater than 1 ounce, the tax must be proportional to the size of the package.

2 K 2

Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to this tax."

SECTION 54. SECTION 16-11-206, MCA, IS AMENDED TO READ:

"16-11-206. Wholesaler's discount -- disposition of taxes. The taxes specified in this part that are paid by the wholesaler must be paid to the department in full less a ~~5%~~ 2.5% defrayment for the wholesaler's collection and administrative expense and must, in accordance with the provisions of 15-1-501, be deposited by the department in the state general fund. Refunds of the tax paid must be made as provided in 15-1-503 in cases in which the tobacco products purchased become unsalable."

NEW SECTION. **SECTION 55. TRANSITION.** (1) ON OR BEFORE JUNE 30, 2003, EACH CIGARETTE WHOLESALE DEALER, RETAIL DEALER, AND VENDING MACHINE OPERATOR SHALL FILE A REPORT WITH THE DEPARTMENT OF REVENUE IN THE FORM PRESCRIBED BY THE DEPARTMENT SHOWING THE NUMBER OF STAMPED CIGARETTES AND CIGARETTE TAX INSIGNIA ON HAND AT 12:01 A.M. ON APRIL 30, 2003.

(2) ACCOMPANYING THE REPORT FILED PURSUANT TO SUBSECTION (1), EACH CIGARETTE WHOLESALE DEALER, RETAIL DEALER, AND VENDING MACHINE OPERATOR SHALL PAY THE DIFFERENCE IN TAX BETWEEN THE FORMER TAX RATE AND THE NEW TAX RATE ON THAT PORTION OF INVENTORY OF CIGARETTES AND CIGARETTE TAX INSIGNIA SUBJECT TO [THIS ACT] HELD BY THE DEALER OR OPERATOR AT 12:01 A.M. ON APRIL 30, 2003~~, THAT EXCEEDS THE NUMBER OF STAMPED CIGARETTES AND CIGARETTE TAX INSIGNIA HELD IN INVENTORY BY THE CIGARETTE WHOLESALE DEALER, RETAIL DEALER, OR VENDING MACHINE OPERATOR AT THE CLOSE OF ITS MOST RECENTLY CONCLUDED INCOME TAX REPORTING YEAR~~.

NEW SECTION. **SECTION 56. NOTIFICATION TO TRIBAL GOVERNMENTS.** THE SECRETARY OF STATE SHALL SEND A COPY OF [THIS ACT] TO EACH TRIBAL GOVERNMENT LOCATED ON THE SEVEN MONTANA RESERVATIONS AND TO THE LITTLE SHELL BAND OF CHIPPEWA.

NEW SECTION. **Section 57. Codification instruction.** (1) [Section 1] is not intended to be codified.

(2) [Sections 2 through ~~41~~ 40] are intended to be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 2 through ~~41~~ 40].

(3) [Section ~~42~~ 41] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section ~~42~~ 41].

NEW SECTION. **SECTION 58. COORDINATION INSTRUCTION.** IF SENATE BILL NO. 470 IS PASSED AND APPROVED, THEN [SECTIONS 41 THROUGH 48 OF THIS ACT] ARE VOID.

NEW SECTION. **Section 59. Saving clause.** [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

NEW SECTION. **Section 60. Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 61. Effective dates.** (1) Except as provided in subsection (2), [this act] is effective ~~January 1, 2005~~ ON PASSAGE AND APPROVAL.

(2) [Sections ~~43, 44, 46, 48, and 49~~ ~~42~~ 41 THROUGH 48] are effective January 1, ~~2006~~ ~~2004~~ 2005.

NEW SECTION. **Section 62. Applicability.** (1) [This act] applies to the sale of THE FOLLOWING GOODS and services ~~after December 31, 2004~~:

(A) CIGARETTE AND TOBACCO PRODUCTS SOLD ON OR AFTER MAY 1, 2003;

(B) ACCOMMODATION AND CAMPGROUND CHARGES UNDER [SECTION 3(1)(B) AND (3)(A)(II)] MADE ON OR AFTER JUNE 1, 2003; AND

(C) BASE RENTAL CHARGES FOR RENTAL VEHICLES UNDER [SECTION 3(1)(C) AND (3)(A)(III)] MADE ON OR AFTER JULY 1, 2003; ~~AND~~.

~~(D) ALL OTHER GOODS AND SERVICES IN [SECTION 3(1) AND (3)(A)] SOLD AFTER MARCH 31, 2004.~~

(2) [SECTIONS 41 AND 43 THROUGH 46] APPLY TO TAX YEARS BEGINNING AFTER DECEMBER 31, ~~2003~~ 2004.

~~NEW SECTION. SECTION 62. TERMINATION. [SECTIONS 49 THROUGH 54] TERMINATE JUNE 30, 2005.~~

- END -

FISCAL NOTE

Bill #: SB0407 **Title:** Income tax reduction with revenue from limited sales tax

Primary Sponsor: Depratu, B **Status:** 3rd Reading

Sponsor signature Date Chuck Swysgood, Budget Director 4/1/03 Date

Fiscal Summary	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
General Fund	$0	$6,943,675	$1,302,822
Revenue:			
General Fund	$1,183,115	$7,149,688	$(2,866,916)
State Special	3,890,470	23,342,820	22,657,087
Capital Projects	10,741	64,443	35,556
Net Impact on General Fund Balance:	$1,183,115	$206,013	$(4,169,738)

☐	Significant Local Gov. Impact	☒	Technical Concerns
☐	Included in the Executive Budget	☒	Significant Long-Term Impacts
☒	Dedicated Revenue Form Attached	☒	Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This bill revises the state's individual income tax effective January 1, 2004 by:
   a) capping the current full deduction for federal income taxes paid during the tax year at $5,000 ($10,000 if married and filing jointly);
   b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
   c) providing for a new tax credit equal to 1% of net capital gains (2% beginning in tax year 2006).
2. Under this bill, the current tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.
3. The bill provides for a new tax rate table for tax year 2004 which will be indexed for inflation in all future tax years.

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4. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2004). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.
5. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $30,177,000 in tax year 2004, and by $42,272,000 in tax year 2005 (DOR income tax simulation model).
6. The Department of Revenue will adjust withholding tables in tax years 2004 and 2005 to accommodate the reduction in tax liability, and taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $16,078,000 in fiscal year 2004, and by $37,305,000 in fiscal year 2005

Limited Sales Tax

7. This bill would impose a limited sales tax, with rates of 5% on accommodations and campgrounds, 9% on the base rental charge for rental vehicles, and 4% on alcoholic beverages sold by the drink, rental or lease of sporting goods, guided recreation and sightseeing, admissions other than movies and school or college sports, camp tuition and recreation fees. The tax would be imposed beginning June 1, 2003 on accommodations and campgrounds, July 1, 2003 on rental vehicles, and April 1, 2004 on the other taxed goods and services.
8. Taxable accommodations and campground rentals would be $26.218 million in the one month of FY03 when the limited tax would be imposed on them. Tax liability would be $1.311 million (5% x $26.218 million).
9. In fiscal 2004, the limited sales tax would be imposed on accommodations and campground rentals and rental vehicles for the whole year and on the other taxable sales for one quarter. Taxable accommodations and campgrounds charges would be $319.495 million, taxable rental vehicle charges would be $60.396 million, and other taxable sales would be $93.830 million. Tax liability would be $25.164 million (5% x $319.495 million + 9% x $60.396 million + 4% x $93.830 million).
10. In FY05, taxable accommodations and campgrounds charges would be $329.400 million, taxable rental vehicle charges would be $62.268 million, and other taxable sales would be $381.136 million. Tax liability would be $37.320 million (5% x $329.400 million + 9% x $62.268 million + 4% x $381.136 million).
11. Vendors would collect 95% of tax liability. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. In fiscal 2003, with the tax in effect for only one month, no vendors would be reach the limit, and vendor allowances would be 5% of taxes collected by vendors. Collections would be $1.183 million (95% x 95% x $1.311 million)
12. Beginning in fiscal 2004, there would be one hundred vendors, accounting for 60% of taxable sales, for whom 5% of quarterly collections would be more than $1,000. The total amount retained for administrative allowances in fiscal 2004 would be $0.678 million (100 vendors x $4,000 + 5% x 40% x 95% x $25.164 million). Net collections to the general fund in fiscal 2004 would be $23.227 million (95% x $25.164 million - $0.678 million). Vendor allowances in fiscal 2005 would be $0.909 million, and net collections to the general fund would be $34.545 million.

Cigarette Tax

13. The current law cigarette tax rate is $0.18 per pack. Under this proposal, the cigarette tax rate is increased by $0.42 to $0.60 per pack. Increasing the tax rate for two months in fiscal 2003 will generate an additional $3,835,058 in fiscal year 2003.
14. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the state veterans' nursing homes.

15. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 21.9% to the state general fund; 5.2% to the Long-Range Building Program Account; 3.7% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes; and 69.2% to a state special revenue account to the credit of the Department of Public Health and Human Services.
16. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.5% for the first 2,580 cartons purchased; from 4% to 1% for the next 2,580 cartons purchased; and from 3% to 0.75% for purchases in excess of 5,160 cartons.
17. The new tax rate, discount rates, and distribution percentages will be in effect from May 1, 2003 to June 30, 2005; and then will terminate.
18. Increasing the cigarette tax rate from $0.18 to $0.60 per pack will generate net new revenue of $3,835,058 in fiscal year 2003; $23,010,347 in fiscal 2004, and $22,182,432 in fiscal 2005.
19. Revenue to the state general fund will ***decrease*** by $(66,152) in fiscal 2003; by $(396,916) in fiscal 2004, and by $(510,213) in fiscal 2005.
20. Revenue to the Long-Range Building Program Account will ***increase*** by $10,741 in fiscal 2003; by $64,443 in fiscal 2004; and by $35,556 in fiscal 2005.
21. Revenue to the Department of Public Health and Human Services for the state veterans' nursing homes will ***increase*** by $10,617 in FY03; by $63,700 in FY04; and by $42,922 in FY05.
22. The above impacts are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RTC) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RTC's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of any tax increase. Given a base cost of $3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
23. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs. These issues are being explored by the Department and will be incorporated in cigarette tax change impact analyses as data and forecast methodologies are further developed and refined.

Tobacco Products Tax

24. Under current law, all tobacco products other than cigarettes are taxed at a rate of 12.5% of the wholesale price. Under this bill, the tobacco products tax rate on all products other than "moist snuff" is increased to 25% of the wholesale price; the tax rate on moist snuff is raised from the equivalent of 34.38¢ an ounce to 35¢ an ounce.
25. Under current law and under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
26. Increasing the tobacco products tax rate from 12.5% to 50% of the wholesale price, and increasing the tax rate on moist snuff from the equivalent of 34.38¢ an ounce to 35¢ an ounce, will generate new general fund revenue of $66,267 in fiscal 2003; $397,604 in fiscal 2004; and $403,297 in fiscal 2005.
27. The impacts in assumption ten are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.

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Administrative Impacts

28. The Department of Revenue would need a new computer system to administer the limited sales tax and to modify its existing income tax processing system. In FY04, the department would purchase new software and have it customized and modify existing software at a cost of $6,237,774. Office equipment and computers for contract programmers would be purchased in FY04 at a cost of $42,837. Ongoing costs for software maintenance and network and storage charges would be $220,000 beginning in FY05.
29. The department would need to hire 22.9 additional FTE to administer the limited sales tax and changed tobacco taxes. Over the course of FY04, 18.17 FTE would be hired to conduct taxpayer education, and develop administrative rules, develop, print and mail forms, and register taxpayers. In FY05, 4.73 FTE would be added for compliance work. Personnel costs would be $375,705 in fiscal 2004. Ongoing personnel costs beginning in FY05 would be $842,630. Costs for office equipment and computers would be $111,885 in FY04 and $40,660 in FY06. Operating costs, including the costs of developing and distributing new forms would be $175,474 in FY05. Ongoing operating costs beginning in FY06 would be $199,532.

FISCAL IMPACT:	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
FTE		18.17	22.90
Expenditures:			
Personal Services		$375,705	$842,630
Operating Expenses		$6,413,248	$419,532
Equipment		$154,722	$40,660
TOTAL		$6,943,675	$1,302,822
Funding of Expenditures:			
General Fund (01)		$6,943,675	$1,302,822
Revenues:			
General Fund (01)	$1,183,115	$7,149,688	$(2,866,916)
State Special Revenue (02)			
DPHHS - Veterans Home	10,617	63,700	42,922
DPHHS – State Special Revenue Account	3,879,853	23,279,120	22,614,167
Capital Projects (05)- Long Range Building	10,741	64,443	35,556
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$1,183,115	$206,013	$(4,169,738)
State Special Revenue (02)			
DPHHS - Veterans Home	10,617	63,700	42,922
DPHHS – State Special Revenue Account	3,879,853	23,279,120	22,614,167
Capital Projects (05)- Long Range Building	10,741	64,443	35,556

LONG-RANGE IMPACTS:

Beginning with tax year 2006, the capital gains tax credit provided for in this bill increases to 2% of net capital gains reported on the taxpayer's income tax return. This, coupled with the other changes to the income tax, is estimated to reduce revenues in FY06 by an estimated $51 million. Cigarette and tobacco product tax

increases terminate at the end of FY05. Revenue from accommodations, rental vehicle, and other limited sales taxes grow from the $34.5 million FY05 level in future years.

TECHNICAL NOTES:

1. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.
2. Implementation of these taxes will require the department to implement a computer system to automate the administrative requirements of registration, return processing, customer and revenue accounting, and compliance activities. The expenditure will involve millions as shown by this estimate. Projects of this size are normally pursued through a Request For Proposal procedure outlined by the Department of Administration and can routinely take up to 6 months of careful planning and review before selecting a vendor or product that meets the department's requirements. The proposed effective and applicability dates in SB407 do not allow for the time required to proceed with the normal procurement processes defined in statute. Unless implementation of this act could be identified as an exception to those requirements, the effective date of the act may have to be amended to July 1, 2004 and applicable to sales occurring after June 30, 2004.

DEDICATION OF REVENUE: SB407

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes, these funds could just as well be in the general fund.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
None

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
While some smokers use or will use DPHHS services most will not.

d) Does the need for this state special revenue provision still exist? ___Yes _X_No (Explain)
The revenue in the special revenue fund is to be used to finance, administer and provide health and human services.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
Yes, it removes the funds from the budget discussions on general funds.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
No

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
A new fund and a different revenue distribution process must be established.

FISCAL NOTE

Bill #: SB0407 **Title:** Income tax reduction with revenue from limited sales tax

Primary Sponsor: Depratu, B **Status:** Third Reading - Revised

Sponsor signature Date Chuck Swysgood, Budget Director 4/7/03 Date

Fiscal Summary	**FY 2003 Difference**	**FY 2004 Difference**	**FY 2005 Difference**
Expenditures:			
General Fund	$1,625	$393,360	$811,164
Revenue:			
General Fund	$6,387,098	$48,210,552	$32,119,894
DPHHS – SSRA – Veteran's Homes	$15,500	$18,034	($2,558)
Long-Range Building Program	$21,500	($21,688)	($49,668)
Net Impact on General Fund Balance:	$6,385,473	$47,817,192	$31,308,730

☐	Significant Local Gov. Impact	☒	Technical Concerns
☐	Included in the Executive Budget	☒	Significant Long-Term Impacts
☐	Dedicated Revenue Form Attached	☐	Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This bill revises the state's individual income tax effective January 1, 2005 by:
   a) capping the current full deduction for federal income taxes paid during the tax year at $5,000 ($10,000 if married and filing jointly);
   b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
   c) providing for a new tax credit equal to 1% of net capital gains (2% beginning in tax year 2007).
2. Under this bill, the current tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.
3. The bill provides for a new tax rate table for tax year 2005 which will be indexed for inflation in all future tax years.

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4. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2005). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.
5. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $29,564,000 in tax year 2005 and by $45,915,000 in tax year 2006 (DOR income tax simulation model).
6. The Department of Revenue will adjust withholding tables in tax years 2005 and 2006 to accommodate the reduction in tax liability, and taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $15,752,000 in fiscal year 2005, and by $38,946,000 in fiscal year 2006

Limited Sales Tax

7. This bill would impose a limited sales tax, with rates of 5% on accommodations and campgrounds and 9% on the base rental charge for rental vehicles. The tax would be imposed beginning June 1, 2003 on accommodations and campgrounds, and July 1, 2003 on rental vehicles.
8. Taxable accommodations and campground rentals would be $26.218 million in the one month of fiscal 2003 when the limited tax would be imposed on them. Tax liability would be $1.311 million (5% x $26.218 million).
9. In fiscal 2004, the limited sales tax would be imposed on accommodations and campground rentals and rental vehicles for the whole year. Taxable accommodations and campgrounds charges would be $319.495 million and taxable rental vehicle charges would be $60.396 million. Tax liability would be $21.410 million (5% x $319.495 million + 9% x $60.396 million).
10. In fiscal 2005, taxable accommodations and campgrounds charges would be $329.400 million and taxable rental vehicle charges would be $62.268 million. Tax liability would be $22.074 million (5% x $329.400 million + 9% x $62.268 million).
11. Vendors would collect 95% of tax liability. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. In fiscal 2003, with the tax in effect for only one month, no vendors would reach the limit, and vendor allowances would be 5% of taxes collected by vendors. Collections would be $1.183 million (95% x 95% x $1.311 million)
12. Beginning in fiscal 2004, there would be 35 vendors, accounting for 50% of taxable sales, for whom 5% of quarterly collections would be more than $1,000. The total amount retained for administrative allowances in fiscal 2004 would be $0.578 million (35 vendors x $4,000 + 5% x 40% x 95% x $20.340 million). Net collections to the general fund in fiscal 2004 would be $19.761 million (95% x $20.340 million - $0.578 million). Vendor allowances in fiscal 2005 would be $0.594 million, and net collections to the general fund would be $20.376 million.

Cigarette Tax

13. The current law cigarette tax rate is $0.18 per pack. Under this proposal, the cigarette tax rate is increased by $0.52 to $0.70 per pack.
14. Increasing the tax rate for two months in fiscal 2003 increases cigarette taxes by $4,674,716. All of this increase is deposited in the state general fund. Implementing a limited "floor tax" on wholesalers tax insignia in stock during this period will generate an additional $500,000 in FY03. This additional tax will be distributed per the proposed law distribution (see below assumptions) $463,000 to the state general fund; $21,500 to the long-range building program account; and $15,500 to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
15. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the long-range building program account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.

16. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 92.6% to the state general fund; 4.3% to the long-range building program account; and 3.1% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
17. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.66% for the first 2,580 cartons purchased; from 4% to 1.11% for the next 2,580 cartons purchased; and from 3% to 0.83% for purchases in excess of 5,160 cartons.
18. Increasing the cigarette tax rate from $0.18 to $0.70 per pack will generate net new revenue of $28,048,294 in fiscal 2004, and $27,040,371 in fiscal 2005.
19. Revenue to the state general fund will ***increase*** by $28,051,948 in fiscal 2004 and by $27,092,597 in fiscal 2005.
20. Revenue to the long-range building program account will ***decrease*** by $(21,688) in fiscal 2004 and by $(49,668) in fiscal 2005.
21. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will ***increase*** by $18,034 in fiscal 2004 and will *decrease* by $(2,558) in fiscal 2005.
22. The above impacts are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of any tax increase. Given a base cost of $3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
23. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs.

Tobacco Products Tax

24. Under current law, all tobacco products other than cigarettes are taxed at a rate of 12.5% of the wholesale price. Under this bill, the tobacco products tax rate on all products other than "moist snuff" is increased to 25% of the wholesale price; the tax rate on moist snuff is raised from the equivalent of 34.38¢ an ounce to 35¢ an ounce.
25. Under current law and under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
26. Increasing the tobacco products tax rate from 12.5% to 50% of the wholesale price, and increasing the tax rate on moist snuff from the equivalent of 34.38¢ an ounce to 35¢ an ounce, will generate new general fund revenue of $66,267 in fiscal 2003; $397,604 in fiscal 2004; and $403,297 in fiscal 2005.
27. The impacts in assumption ten are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.

Administrative Impacts

28. The Department of Revenue would need a new computer system to administer the limited sales tax and would need to modify its existing income tax processing system. The costs for purchasing new software and having it customized would be $389,652 in fiscal 2004 and $811,164 in fiscal 2005. Office equipment and computers for contract programmers would be purchased in fiscal 2004 at a cost of $3,708.

Ongoing costs for software maintenance would be $60,000 beginning in fiscal 2006. Modifying the existing income tax processing system would cost $6,365 in fiscal 2006.

29. In fiscal 2003, the department would send a mailing to all cigarette wholesalers explaining the procedures for changing the tax rate at a cost of $1,625.

FISCAL IMPACT:	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
Operating Expenses	$1,625	$389,652	$811,164
Equipment		$3,708	
TOTAL	$1,625	$393,360	$811,164
Funding of Expenditures:			
General Fund (01)	$1,625	$393,360	$811,164
Revenues:			
General Fund (01)	$6,387,098	$48,210,552	$32,119,894
State Special Revenue (02)			
Long Range Building Program	$21,500	($21,688)	($49,668)
DPHHS - Veterans Home	$15,500	$18,034	($2,558)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$6,385,473	$47,817,192	$31,308,730
State Special Revenue (02)			
Long Range Building Program	$21,500	($21,688)	($49,668)
DPHHS - Veterans Home	$15,500	$18,034	($2,558)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
Beginning with tax year 2007, the capital gains tax credit provided for in this bill increases to 2% of net capital gains reported on the taxpayer's income tax return. This is anticipated to increase the net reduction in tax liability by approximately $7 million above what the reduction otherwise would be. Cigarette and tobacco product tax increases and revenue from accommodations, rental vehicle, and other limited sales taxes grow in future years.

TECHNICAL NOTES:

1. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN DANIEL FUCHS**, on April 8, 2003 at 8:04 A.M., in Room 152 Capitol.

ROLL CALL

Members Present:

Rep. Daniel Fuchs, Chairman (R)
Rep. Ronald Devlin, Vice Chairman (R)
Rep. Ron Erickson, Vice Chairman (D)
Rep. Joan Andersen (R)
Rep. Joe Balyeat (R)
Rep. Gary Branae (D)
Rep. Eileen J. Carney (D)
Rep. Jill Cohenour (D)
Rep. Larry Cyr (D)
Rep. Gary Forrester (D)
Rep. Kim Gillan (D)
Rep. Verdell Jackson (R)
Rep. Bob Lake (R)
Rep. Carol Lambert (R)
Rep. Jesse Laslovich (D)
Rep. Jim Peterson (R)
Rep. John (Jack) W. Ross (R)
Rep. Karl Waitschies (R)

Members Excused: None.

Members Absent: None.

Staff Present: Kathleen Ely, Committee Secretary
Jeff Martin, Legislative Branch

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society. THE TIME STAMP REPRESENTS ELAPSED TIME.

Committee Business Summary:

Hearing & Date Posted:	SB 462, 4/4/2003; SB 407, 4/4/2003; SB 480, 4/4/2003
Executive Action:	SB 294, BE CONCURRED IN AS AMENDED, 18-0 SB 469, TABLED

HEARING ON SB 462

Opening Statement by Sponsor:

01:00 **SEN. DEPRATU, SD 40 -- Short Title:** Three-year depreciation for renewable resources recovery and utilization equipment.

Proponents' Testimony:

05:00 Ellen Engstedt, Wood Products Association
06:00 Dick King, Missoula Area Economic Development Corporation
08:00 Don Allen, Western Environmental Trade Association
09:00 Julie Altimus, Montana Logging Association
11:00 Mary Whittinghill, Montana Taxpayers Association
11:00 Webb Brown, Montana Chamber of Commerce
12:00 Carl Schweitzer, Bozeman Chamber of Commerce, Kalispell Chamber of Commerce
12:00 Riley Johnson, National Federation of Independent Businesses

Opponents' Testimony: None.

Informational Testimony: None.

Questions from Committee Members and Responses:

12:00
19:00 Kurt Alme, Department of Revenue

Closing by Sponsor:

24:00

HEARING ON SB 407

Opening Statement by Sponsor:

26:00 **SEN. DEPRATU, SD 40 -- Short Title:** Income tax reduction with revenue from limited sales tax.

Proponents' Testimony:

39:00 **SEN. STORY, SD 12**
43:00 Kurt Alme, Department of Revenue

EXHIBIT(tah75a01)

EXHIBIT(tah75a02)
EXHIBIT(tah75a03)
EXHIBIT(tah75a04)
EXHIBIT(tah75a05)
EXHIBIT(tah75a06)
EXHIBIT(tah75a07)
1:00:00 Judy Smith, Fair Share Network
EXHIBIT(tah75a08)
1:03:00 Pat Kalbek Harper, American Association of Retired Persons
EXHIBIT(tah75a09)
1:04:00 Steve Yeakel, Human Resources District Council Directors, Montana Child Care Votes, Montana Council of Maternal and Child Health
1:06:00 Chris Volinkaty, Developmentally Disabled Kids
1:07:00 Ernie Dutton, Montana Association
EXHIBIT(tah75a10)
EXHIBIT(tah75a11)
EXHIBIT(tah75a12)
1:09:00 David Johnson, Certified Public Accountants Society
1:09:00 George Olsen, Galush, Higgins & Galusha
1:10:00 Rick Reisig, Hamilton
1:10:00 Webb Brown, Montana Chamber of Commerce
1:10:00 Nancy Schlepp, Montana Farmers Bureau
1:10:00 Janie McCall, Deaconess Billings Clinic (DBC, Montana Childrens' Initiative
1:11:00 Beda Lovitt, Montana Medical Association
1:11:00 Bob Stephens, Montana Graingrowers Association
1:11:00 Jim Ahrens, Montana Hospital Association
1:11:00 Carl Schweitzer, Bozeman Chamber of Commerce, Kalispell Chamber of Commerce
1:12:00 Cathy Burwell, Helena Chamber of Commerce
1:12:00 Dave Gibson, Office of the Governor

Opponents' Testimony:
1:12:00 Robert Worden, Montana Enterprise Cars
1:14:00 Mike Scholes, Montana Innkeepers Association
1:16:00 Jerome Anderson, R. J. Reynolds Tobacco
1:18:00 Mike Parker, Pennington's
1:21:00 Gene Fenderson, Progressive Labor Caucus
1:25:00 Amy Gromjaz, Phillip Morris
1:26:00 Riley Johnson, National Federation of Independent Businesses
1:27:00 Joe Taylor, Dollar Rent-A-Car
EXHIBIT(tah75a13)
1:29:00 Amy Sullivan, Montana Tourism Association
1:31:00 Mark Staples, Montana Wholesalers Association
EXHIBIT(tah75a14)
1:33:00 Bob Gilbert, Montana Convenience Stores Association

1:34:00 Mike Fellows, Montana Libertarian Party
EXHIBIT(tah75a15)
1:35:00 Steve Costly, Montana Car Rental Association
1:36:00 Bob Doyle, Avis Rent-A-Car
1:37:00 Bill Hilsendeger, Dollar Rent-A-Car
1:38:00 Mary Caferro, WEEL
1:39:00 John Suprock, Sheehan Majestic
1:41:00 Bill Stevens, Montana Food Distributors Association
1:42:00 Jim Tweet, Perkins Restaurant and Midtown Hotel, Great Falls Hotel and Motel
1:42:00 Bob Pavlovich, North Atlantic Tranding Company

Informational Testimony:
1:42:00 **DAVE WANZENREID, HD 68**
1:44:00 Roger Hagen, Veterans Nursing Home, Retired Military

Questions from Committee Members and Responses:
1:44:00

Closing by Sponsor:
2:18:00

10:25 a.m. Break
10:48 a.m. Resume

HEARING ON SB 480

Opening Statement by Sponsor:
2:44:00 **SEN. BLACK, SD 44 -- Short Title:** Revise tax laws to clarify taxation of dividends.

Proponents' Testimony:
2:48:00 Kurt Alme, Department of Revenue

Opponents' Testimony: None.

Informational Testimony: None.

Questions from Committee Members and Responses:
2:48:00

Closing by Sponsor:
2:50:00

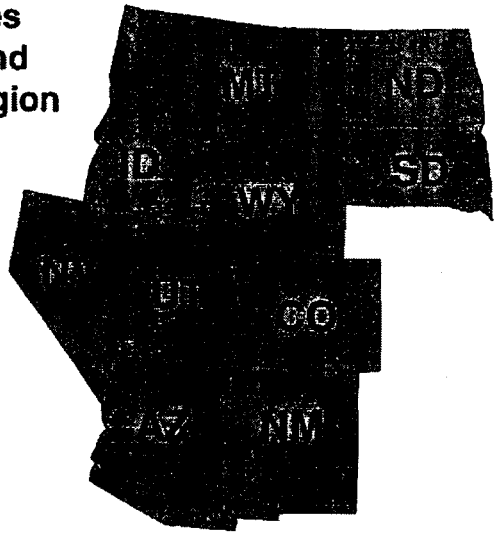
EXECUTIVE ACTION ON SB 294

Motion: **REP. LAKE moved that SB 294 BE CONCURRED IN.**

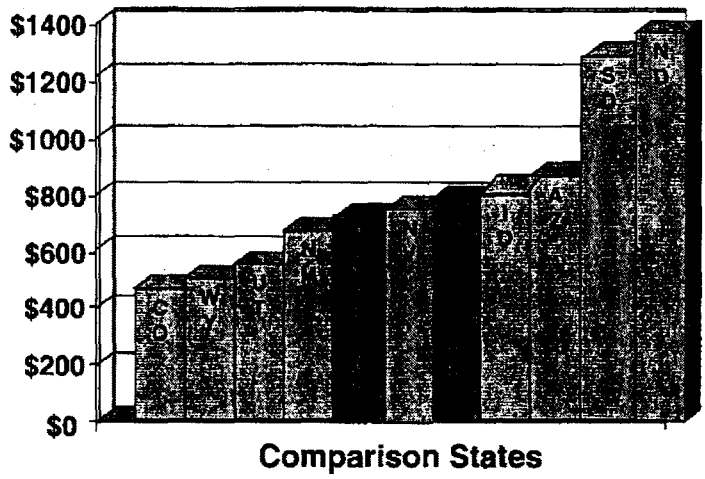
EXHIBIT 1
DATE 4-8-03
SB 407

Martz/Ohs Administration Tax Reform Plan

Comparison States Adjacent States and Rocky Mountain Region



Effective Property Tax Rates in Residential Property



Source: 50 – State Property Tax Comparison Study Executive Summary. Minnesota Taxpayers Association, In Cooperation with the National Taxpayers Conference, 2000.

Montana Department of Revenue — Revised 2/14/03

Montana Property Tax Burden National and Regional Comparison

	Value	National Avg. Tax Rate	MT Tax Rate	MT Rank in Nation	Regional Avg. Tax Rate
Residential Property					
Property #1	$80,000	1.32%	.81%	37	.83%
Property #2	$200,000	1.15%	.69%	41	.76%
Commercial Property					
Property #1	$120,000	2.22%	1.26%	41	1.52%
Property #2	$1,200,000	2.26%	1.26%	40	1.52%
Industrial Property					
Property #1	$200,000	1.69%	1.01%	44	1.32%
Property #2	$2,000,000	1.72%	1.01%	42	1.43%

Source: 50 – State Property Tax Comparison Study Executive Summary. Minnesota Taxpayers Association, In Cooperation with the National Taxpayers Conference, 2000.

Montana Department of Revenue — Revised 2/14/03

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State Corporate Income Tax Rates

	Federal Taxable Income 100,000		1,000,000	
	Effective Tax Rate	Rank	Effective Tax Rate	Rank
North Dakota**	8.835%	1	10.334%	1
Idaho	8.000%	2	8.000%	2
Arizona	6.968%	3	6.968%	3
Montana	6.750%	4	6.750%	4
New Mexico**	4.800%	6	5.600%	5
Utah	5.000%	5	5.000%	6
Colorado	4.630%	7	4.630%	7
Nevada*	0.000%	8	0.000%	8
South Dakota*	0.000%	8	0.000%	8
Wyoming*	0.000%	8	0.000%	8

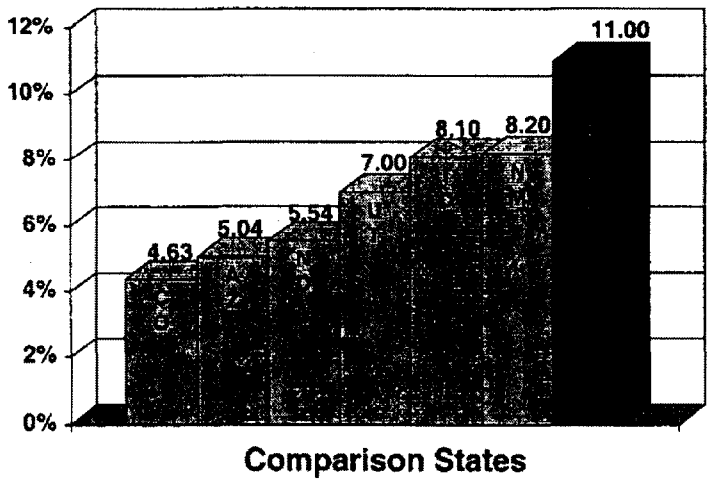
*Nevada, South Dakota and Wyoming do not have a corporate income tax.

**New Mexico and North Dakota have graduated rate tables; all other states apply a single, flat rate

Montana Department of Revenue Revised 2/14/03

Current Tax Law – Highest Statutory Income Tax Rate

Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.



Montana Department of Revenue Revised 2/14/03

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Personal Finance Tax Survey
Bloomberg and Kiplinger

Comparing the 50 states and the District of Columbia,

Bloomberg's Personal Finance Tax Survey ranked Montana:

- **51st** (worst) with respect to the overall tax bite on families; and
- **49th** with respect to the overall tax bite on retirees.

Kiplinger's Personal Finance Tax Survey ranked Montana:

- **51st** (worst) with respect to the income tax bite on retirees.

Average Effective Individual Income Tax Rates – Montana's Regional Ranking

Representative Household #	Total Income	Other Income	Capital Gains Income	Montana Rank
1	$30,000	$30,000	-	4
2	$60,000	$60,000	-	4
3	$120,000	$120,000	-	4
4	$150,000	$150,000	-	3
5	$60,000	$45,000	$15,000	3
6	$120,000	$90,000	$30,000	3
7	$150,000	$112,500	$37,500	2
8	$1,000,000	$50,000	$950,000	1

Notes: MT's rank among 8 neighboring and Rocky Mountain states, with 1 being the highest rank and 8 being the lowest rank.

Current Tax Law – Top Effective Marginal Rate of Tax on Capital Gains Income

Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.

Montana Department of Revenue — Revised 2/14/03

Simple Calculation of Top Effective Marginal Tax Rate After Federal Deductions on Income

	Ordinary Income	Capital Gain
Amount of Income	$100	$100
Marginal Federal Tax Rate	39.6%	18.0%
Total Federal Tax	**$39.60**	**$18.00**
Amount of Income	$100	$100
Deductions for Federal Taxes Paid	$39.60	$18.00
State Tax Base	$60.40	$82.00
Marginal State Tax Rate	11.00%	11.00%
Total State Tax	**$6.60**	**$9.02**
Effective State Tax Rate	6.60%	9.02%

Montana Department of Revenue — Revised 2/14/03

Income Tax Problems and Solutions

Problems:

- Highest income tax rates
- Highest effective capital gains rates

Solved By:

- Reducing stated top income tax rate from 11% to 6.9%
- Reducing Montana's top marginal effective capital gains rate by 37%
- Lowering effective income tax rates for all filer types an average of 10%
- Capping federal deductibility at $5,000 ($10,000 joint)

Martz/Ohs Tax Reform Plan
Rate Tables for Tax Year 2006

- Cap Federal Deductibility at $5,000/$10,000
- Credit Equal to 1% of Long-Term Capital Gains Income
- Revise Tax Rate Tables

Current Law Tax Rate Table

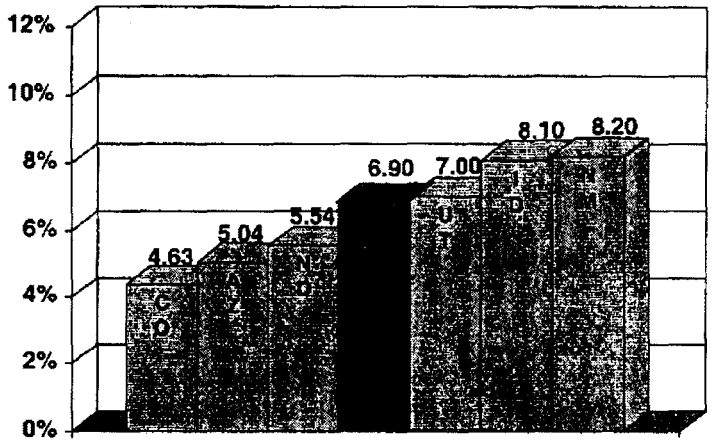
0	2,400	2%
2,400	4,900	3%
4,900	9,700	4%
9,700	14,600	5%
14,600	19,500	6%
19,500	24,300	7%
24,300	34,100	8%
34,100	48,700	9%
48,700	85,100	10%
85,100		11%

Proposed Tax Rate Table

0	3,400	1%
3,400	5,500	2%
5,500	7,900	3%
7,900	10,900	4%
10,900	13,200	5%
13,200	15,500	6%
15,500		6.9%

Proposed Tax Law – Highest Statutory Income Tax Rate

Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.

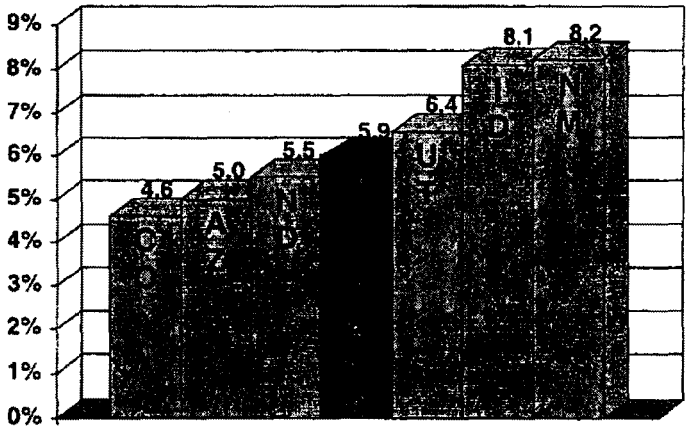


Comparison States

Montana Department of Revenue — Revised 2/14/03

Proposed Tax Law – Top Effective Marginal Rate of Tax on Capital Gains Income

Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.



Comparison States

Montana Department of Revenue — Revised 2/14/03

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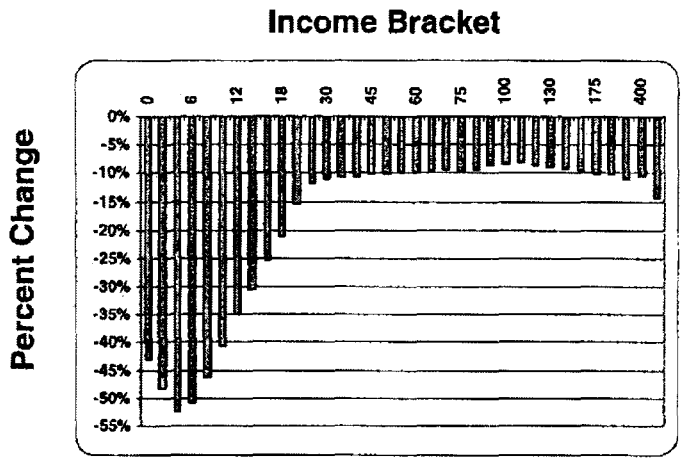
Martz/Ohs Tax Reform Plan
Percentage Tax Reduction by Income Bracket



Montana Department of Revenue — Revised 2/14/03

Married Joint Filer (One Child) – $30,000 Ordinary Income

- Cap Federal Deductibility at $5,000/$10,000
- Revise Tax Rate Table
- Credit Equal to 1% of Long-Term Capital Gains Income
- Top Tax Rate 6.9%
- Tax Year 2006

	Current Law Tax	Proposed Law Tax	Change
Adjusted Gross Income	**30,000**	**30,000**	**-**
Itemized Deductions			
Federal Income Tax Paid	(724)	(724)	-
All Other Deductions	(8,000)	(8,000)	-
Total Itemized Deductions	(8,724)	(8,724)	-
Personal Exemption Value (1)	(5,850)	(5,850)	-
Taxable Income	15,426	15,426	-
Tax Liability	**610**	**517**	**(93)**
Effective Tax Rate	**2.03%**	**1.72%**	**(0.31%)**
Percentage Change In Tax			**(15.26%)**

This example is modeled after the concepts the Governor's Income Tax Advisory Council is discussing.

Montana Department of Revenue — Revised 2/14/03

Married Joint Filer – $90,000 Ordinary Income

- Cap Federal Deductibility at $5,000/$10,000
- Revise Tax Rate Table
- Top Rate of 6.9%
- Capital Gains Credit 1%
- Tax Year 2006

Components of Tax Liability	Current Law Tax Liability	Tax Liability Under Cap and New Tax Rate Table	Change
Adjusted Gross Income	**90,000**	**90,000**	**-**
Itemized Deductions			
Federal Income Tax Paid	(12,000)	(10,000)	2,000
All Other Deductions	(20,500)	(20,500)	-
Total Itemized Deductions	(32,500)	(30,500)	2,000
Personal Exemption Value	(5,850)	(5,850)	-
Taxable Income	51,650	53,650	2,000
Tax Liability	**3,583**	**3,153**	**(430)**
Effective Tax Rate	**3.98%**	**3.50%**	**(0.48%)**
Percentage Change in Tax			**(12.01%)**

Montana Department of Revenue — Revised 2/14/03

Married Filer
$30,000 Ordinary Income – $500,000 Capital Gains Income

- Cap Federal Deductibility at $5,000/$10,000
- Revise Tax Rate Table
- Top Tax Rate 6.9%
- Capital Gains Credit 1%
- Tax Year 2006

	Current Law Tax (11%)	Proposed Law Tax (6.9%)	Change in Tax
Ordinary Income	**30,000**	**30,000**	**-**
Capital Gains Income	**500,000**	**500,000**	**-**
Adjusted Gross Income	**530,000**	**530,000**	
Tax Liability Before Credit	**43,688**	**34,075**	**(9,613)**
Capital Gains Tax Credit (1%)	**-**	**(5,000)**	**(5,000)**
Tax Liability	**43,688**	**29,075**	**(14,613)**
Effective Tax Rate	**8.24%**	**5.49%**	**(2.76%)**
Percent Change in Tax			**(33.45%)**

Bought the business for $100,000 in 1988. Sold the business for $600,000 in current year for $500,000 capital gain.

Montana Department of Revenue — Revised 2/14/03

Replacement revenue for the income tax reduction.

Impact of Eliminating the State Individual Income Tax and Fully Replacing with a State Retail Sales Tax Tax Year 2001

Component	Impact On State Treasury	Impact On Montana Residents	Impact On Nonresidents
State Income Tax	(555.600)	(517.509)	(38.091)
State Sales Tax	555.600	497.595	58.005
Federal Income Tax*	-	101.513	-
Net Impact	**0.000**	**81.599**	**19.914**

* Does not include any reductions in federal tax that may arise due to deductibility of sales taxes paid by businesses.

What is the replacement revenue?

- A limited sales tax on specific items that nonresidents purchase, resulting in nonresidents paying 44% of the tax.
- Montanans pay 56% of the replacement revenue when they buy taxable items.
  - The replacement revenue Montanans pay would be more than offset by the savings from the 10% income tax reduction. All Montana income classes will be as well off or better off under the reform plan.
- The replacement revenue should not harm the tourism industry.

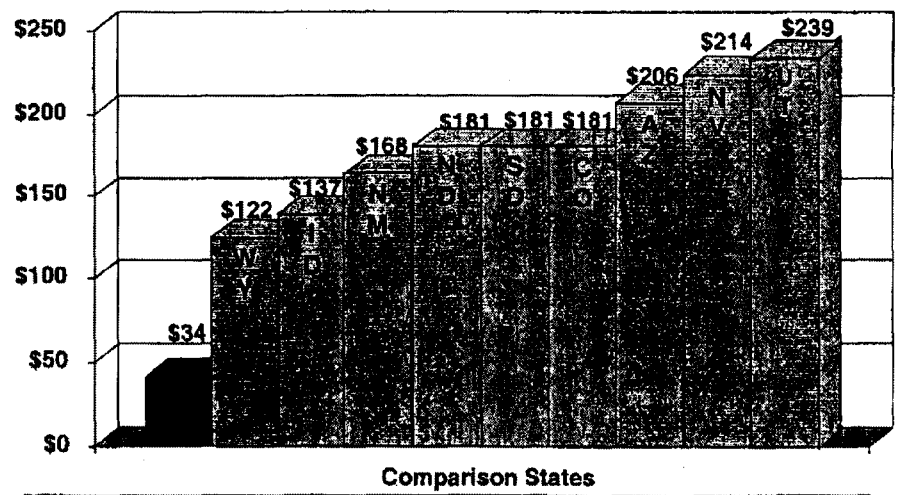
Potential Replacement Revenue
Net Revenue 2006

Taxed Sales	**$ Million**
Prepared Food	$1,094.591
Drinks	$231.244
Accommodations	$379.058
Rental Cars	$43.339
Rental of Recreational Equipment	$6.571
Guided Recreation and Sightseeing	$78.930
Admissions (Except for movies and amateur athletics)	$23.009
Recreation Fees	$69.327
Total Taxable Sales	$1,926.069
Tax at 4% (95% Compliance)	$73.191
- Vendor Allowance	($3.196)
- Administration Cost	($1.546)
Net Revenue Available for Tax Shift	**$68.449**

Items Taxed in a One Week Vacation

- Car rented in largest city in state and driven 1,000 miles
- $80 per night on lodging
- $100 per day on meals
- $100 per day on other taxable purchases

Current Tax Law – Tax Revenue Collected from Tourists on a Vacation



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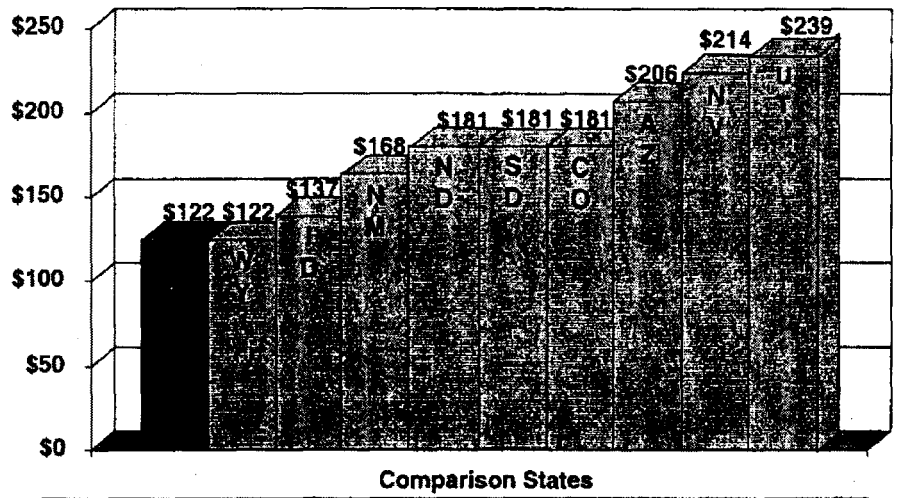
Proposed Tax Law – Tax Revenue Collected on a Vacation



Montana Department of Revenue — Revised 2/14/03

Calculations of Quarterly Replacement Revenue Vendor Allowance

	Examples		
	A	B	C
Sales	$1,000,000	$200,000	$250
Multiplied by Tax Rate	4%	4%	4%
Tax Collected	$40,000	$8,000	$8
Multiplied by Vendor Allowance Rate	5%	5%	5%
Calculated Vendor Allowance Before Max./Min. Adjustment	$2,000	$400	$0.40
Maximum Allowance	$1,000	$1,000	$1,000
Actual Vendor Allowance*	**$1,000**	**$400**	**$8**

*Vendor keeps all replacement revenue collected until the total collections exceed $10.

Montana Department of Revenue — Revised 2/14/03

Shift of Tax Burden to Nonresidents
Calendar Year 2006

Component	Montana Residents	Nonresidents	Total
State Income Tax Cut	($69 million)	($5 million)	($74 million)
Limited Sales Tax	$38 million	$30 million	$68 million
State Tax Change	**($31 million)**	**$25 million**	($6 million)*
Fed. Income Tax Increase	$13 million	- 0 -	
Combined State and Federal Tax Change	**($18 million)**	**$25 million**	

Nonresidents pay 7% of the income tax, but will pay approximately 44% of replacement revenue. Does not include any reductions in federal tax that may arise due to deductibility of sales taxes paid by businesses.

*Although state tax collections are reduced in 2006, the plan is revenue neutral over the biennium.

Montana Department of Revenue — Revised 2/14/03

Montana Combined Income Tax / Replacement Revenue Impact By Income Bracket – Calendar Year 2006

Income Bracket	Average Replacement Revenue	Average Income Tax Reduction	Average Net Tax Impact	Average Expenditures on Taxed Items[1]
$5,000 to $9,999	$40	($38)	$2	$1,000
$10,000 to $14,999	$52	($66)	($14)	$1,300
$15,000 to $19,999	$70	($83)	($13)	$1,750
$20,000 to $29,999	$88	($85)	$3	$2,200
$30,000 to $39,999	$115	($117)	($2)	$2,875
$40,000 to $49,999	$129	($161)	($32)	$3,225
$50,000 to $69,999	$159	($227)	($68)	$3,975
$70,000 and over	$257	($766)	($509)	$6,425
Statewide	**$110**	**($179)**	**($69)**	**$2,750**

[1] The following is the source of expenditures used in this example: *Consumer Expenditure Survey*, Bureau of Labor Statistics, U.S. Department of Labor, 1999.

Montana Department of Revenue — Revised 2/14/03

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Overall Outcome

- Income tax rates are more competitive
- Capital gains tax rates are more competitive
- Revenue neutral to state government
- Decreases taxes for Montana residents
- Increases state taxes for nonresidents
- All income classes of Montanans are as well off or better off

Feedback

E-mail: taxreform@state.mt.us

Mail: Montana Department of Revenue
Director's Office
Tax Reform Feedback
P.O. Box 5805
Helena, MT 59604-5805

For more information on tax reform, visit the state's website at www.discoveringmontana.com

Click on the icon that says Official website – Governor's Tax Plan

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SB407 - Delay Income Tax Reduction 1 Year; Tax Expenditure @ 70 Cents per Pack; Drop Tax on Drinks, Recreation, Etc.

	Nonresident Percentage	Applicability Date	Fiscal 2003	Fiscal 2004	Fiscal 2005	Total FY2003-2005
Revenue Enhancement						
Accommodations Tax - 5% increase	77%	6/1/03	$1,183,000	$14,746,000	$15,245,000	$31,174,000
Rental Car Tax - 9%	70%	7/1/03	-	5,017,000	5,187,000	10,204,000
Other Tobacco Products Tax (12.5% to 25%; Moist Snuff @ 35 cents per oz.)		5/1/03	66,267	397,604	403,297	867,168
Cigarette Tax at 52 cents increase ($0.18 +$0.52 = $0.70)		5/1/03	5,174,716	28,048,294	27,040,371	60,263,381
TOTAL INCREASED TAX REVENUE			$6,423,983	$48,208,898	$47,875,668	$102,508,549
Revenue Reductions						
Income Tax Reform			0	$ -	$ (15,752,000)	$ (15,752,000)
DOR System Cost			0	$ (1,213,538)	$ (71,956)	$ (1,285,494)
DOR Tax Administration Cost			0	$ (14,483)	$ (8,235)	$ (22,718)
TOTAL REVENUE REDUCTIONS			0	$ (1,228,021)	$ (15,832,191)	$ (17,060,212)
NET REVENUE IMPACT			**$6,423,983**	**$46,980,877**	**$32,043,477**	**$85,448,337**

EXHIBIT 2
DATE 4-8-03
SB 407

SB407 as Transmitted to the House
Married Filing Separately Households - Tax Year 2006 Impacts

IMPACTS BY INCOME BRACKET

Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	238	228,157	1,345	748	(597)	2	0	236	228	230	0.8%	0.0%	0.59%	0.33%	0.00%	0.00%	6	3	(3)	0.00%
$ 2,000 - $ 3,999	236	714,868	4,028	3,044	(984)	2	0	234	180	182	0.8%	0.0%	0.56%	0.43%	0.00%	0.00%	17	13	(4)	-24.42%
$ 4,000 - $ 5,999	308	1,539,105	7,890	4,595	(3,296)	4	0	304	148	154	1.3%	0.0%	0.51%	0.30%	0.00%	0.00%	26	15	(11)	-41.77%
$ 6,000 - $ 7,999	433	3,038,103	20,850	12,852	(7,998)	5	0	428	188	196	1.2%	0.0%	0.69%	0.42%	0.00%	0.00%	48	30	(18)	-38.36%
$ 8,000 - $ 9,999	445	4,011,003	37,344	24,303	(13,041)	116	0	329	140	153	26.1%	0.0%	0.93%	0.61%	0.01%	0.00%	84	55	(29)	-34.92%
$ 10,000 - $ 11,999	527	5,793,791	65,139	44,365	(20,774)	223	1	303	120	142	42.3%	0.2%	1.12%	0.77%	0.01%	0.01%	124	84	(39)	-31.69%
$ 12,000 - $ 13,999	704	9,195,553	120,876	88,665	(32,210)	234	1	469	114	146	33.2%	0.1%	1.31%	0.96%	0.02%	0.02%	172	126	(46)	-26.85%
$ 14,000 - $ 15,999	912	13,717,681	180,222	140,140	(40,082)	326	0	586	137	183	35.7%	0.0%	1.31%	1.02%	0.03%	0.03%	198	154	(44)	-22.24%
$ 16,000 - $ 17,999	980	16,703,004	251,307	204,508	(46,799)	417	1	562	116	169	42.6%	0.1%	1.50%	1.22%	0.04%	0.04%	256	209	(48)	-18.62%
$ 18,000 - $ 19,999	1,173	22,296,655	324,718	257,044	(67,671)	604	1	568	115	172	51.5%	0.1%	1.46%	1.15%	0.06%	0.05%	277	219	(58)	-20.84%
$ 20,000 - $ 24,999	3,745	84,505,090	1,431,574	1,198,258	(233,316)	2,207	3	1,535	251	421	58.9%	0.1%	1.69%	1.42%	0.25%	0.22%	382	320	(62)	-16.30%
$ 25,000 - $ 29,999	4,414	121,680,726	2,448,135	2,148,571	(299,564)	2,843	15	1,556	156	294	64.4%	0.3%	2.01%	1.77%	0.42%	0.40%	555	487	(68)	-12.24%
$ 30,000 - $ 34,999	5,423	176,780,895	4,012,231	3,659,819	(352,412)	3,151	30	2,242	113	234	58.1%	0.6%	2.27%	2.07%	0.70%	0.68%	740	675	(65)	-8.78%
$ 35,000 - $ 39,999	6,485	243,499,577	6,075,563	5,714,585	(360,978)	2,990	61	3,434	84	171	46.1%	0.9%	2.50%	2.35%	1.05%	1.06%	937	881	(56)	-5.94%
$ 40,000 - $ 44,999	7,261	308,713,334	8,695,673	8,352,694	(342,979)	2,791	220	4,250	49	113	38.4%	3.0%	2.82%	2.71%	1.51%	1.56%	1,198	1,150	(47)	-3.94%
$ 45,000 - $ 49,999	7,759	368,652,014	11,319,624	11,027,755	(291,869)	2,734	803	4,222	43	87	35.2%	10.3%	3.07%	2.99%	1.96%	2.06%	1,459	1,421	(38)	-2.58%
$ 50,000 - $ 54,999	7,743	406,363,995	13,454,192	13,161,487	(292,704)	2,786	1,530	3,427	47	76	36.0%	19.8%	3.31%	3.24%	2.33%	2.45%	1,738	1,700	(38)	-2.18%
$ 55,000 - $ 59,999	7,392	424,787,365	14,885,005	14,569,337	(315,669)	2,683	1,841	2,868	28	57	36.3%	24.9%	3.50%	3.43%	2.58%	2.72%	2,014	1,971	(43)	-2.12%
$ 60,000 - $ 64,999	7,101	443,565,432	16,439,837	16,026,732	(413,105)	2,605	1,703	2,593	26	39	39.5%	24.0%	3.71%	3.61%	2.85%	2.99%	2,315	2,257	(58)	-2.51%
$ 65,000 - $ 69,999	6,019	405,857,706	15,822,039	15,395,657	(426,381)	2,603	1,327	2,089	20	28	43.2%	22.0%	3.90%	3.79%	2.74%	2.87%	2,629	2,558	(71)	-2.69%
$ 70,000 - $ 74,999	5,226	378,485,712	15,364,563	14,926,214	(438,349)	2,492	1,085	1,649	20	32	47.7%	20.8%	4.06%	3.94%	2.67%	2.78%	2,940	2,856	(84)	-2.85%
$ 75,000 - $ 79,999	4,422	342,348,555	14,387,359	13,924,647	(462,712)	2,393	959	1,070	17	22	54.1%	21.7%	4.20%	4.07%	2.50%	2.60%	3,254	3,149	(105)	-3.22%
$ 80,000 - $ 89,999	6,327	535,847,123	23,546,157	22,791,893	(754,264)	3,626	1,497	1,204	27	32	57.3%	23.7%	4.39%	4.25%	4.08%	4.25%	3,722	3,602	(119)	-3.20%
$ 90,000 - $ 99,999	4,058	384,058,116	17,729,730	17,208,411	(521,319)	2,306	1,146	606	7	10	56.8%	28.2%	4.62%	4.48%	3.08%	3.21%	4,369	4,241	(128)	-2.94%
$100,000 - $109,999	2,559	268,223,708	12,821,985	12,480,325	(341,660)	1,492	756	311	8	14	58.3%	29.5%	4.78%	4.65%	2.22%	2.33%	5,011	4,877	(134)	-2.66%
$110,000 - $119,999	1,777	203,572,973	9,958,691	9,716,881	(241,810)	1,029	570	178	4	7	57.9%	32.1%	4.89%	4.77%	1.73%	1.81%	5,604	5,468	(136)	-2.43%
$120,000 - $129,999	1,199	149,744,562	7,495,494	7,260,175	(235,320)	702	405	92	5	5	58.5%	33.8%	5.01%	4.85%	1.30%	1.35%	6,251	6,055	(196)	-3.14%
$130,000 - $139,999	855	128,685,998	6,750,427	6,512,319	(238,108)	625	276	54	1	0	65.4%	28.9%	5.25%	5.06%	1.17%	1.21%	7,069	6,819	(249)	-3.53%
$140,000 - $149,999	685	99,138,869	5,263,584	5,046,072	(217,512)	435	218	32	1	1	63.5%	31.8%	5.31%	5.09%	0.91%	0.84%	7,684	7,367	(318)	-4.13%
$150,000 - $174,999	1,274	204,959,000	11,425,454	10,889,198	(536,255)	857	356	61	7	8	67.3%	27.9%	5.57%	5.31%	1.98%	2.03%	8,968	8,547	(421)	-4.69%
$175,000 - $199,999	839	157,029,650	9,074,625	8,544,862	(529,763)	603	202	34	2	2	71.9%	24.1%	5.78%	5.44%	1.57%	1.59%	10,816	10,185	(631)	-5.84%
$200,000 - $299,999	1,391	334,216,431	20,693,599	19,278,416	(1,415,183)	1,019	339	33	2	5	73.3%	24.4%	6.19%	5.77%	3.59%	3.59%	14,877	13,859	(1,017)	-6.84%
$300,000 - $399,999	522	178,547,788	12,172,107	11,042,773	(1,129,334)	410	108	4	0	0	78.5%	20.7%	6.82%	6.18%	2.11%	2.06%	23,318	21,155	(2,163)	-9.28%
$400,000 - $499,999	208	92,368,780	6,705,914	6,021,806	(684,108)	169	37	2	1	1	81.3%	17.8%	7.26%	6.52%	1.18%	1.12%	32,240	28,951	(3,289)	-10.20%
$500,000+	436	449,443,052	35,154,695	30,135,674	(5,019,021)	366	68	2	0	2	83.9%	15.6%	7.82%	6.71%	6.10%	5.82%	80,630	69,119	(11,512)	-14.28%
TOTALS	101,176	6,968,314,371	304,141,976	287,814,826	(16,327,150)	48,050	15,559	37,567	2,403	3,388	47.5%	15.4%	4.36%	4.13%	52.76%	53.64%	3,006	2,845	(161)	-5.37%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability Current Law	No Tax Liability Proposed Law	% of Gainers	% of Losers	Effective Tax Rates Current Law	Effective Tax Rates Proposed Law	Percent of Total Liability Current Law	Percent of Total Liability Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	515	1,113,530	5,823	4,016	(1,806)	4	0	511	429	434	0.8%	0.0%	0.52%	0.36%	0.00%	0.00%	11	8	(4)	-31.02%
2 ($4,949)	797	5,200,799	35,271	21,640	(13,630)	25	0	772	348	361	3.1%	0.0%	0.68%	0.42%	0.01%	0.00%	44	27	(17)	-38.64%
3 ($8,581)	1,190	12,947,816	148,696	102,209	(46,487)	422	1	767	276	325	35.5%	0.1%	1.15%	0.79%	0.03%	0.02%	125	86	(39)	-31.26%
4 ($13,896)	2,192	34,083,907	473,358	372,990	(100,368)	846	2	1,344	308	420	38.6%	0.1%	1.39%	1.09%	0.08%	0.07%	216	170	(46)	-21.20%
5 ($19,422)	4,031	84,597,844	1,344,333	1,111,269	(233,064)	2,232	4	1,795	328	526	55.4%	0.1%	1.59%	1.31%	0.23%	0.21%	333	276	(58)	-17.34%
6 ($25,447)	7,041	196,401,534	3,981,564	3,503,884	(477,680)	4,478	16	2,545	244	459	63.6%	0.3%	2.03%	1.78%	0.69%	0.65%	565	498	(68)	-12.00%
7 ($33,994)	12,859	475,780,974	11,894,561	11,153,566	(740,996)	6,159	131	6,569	173	365	47.9%	1.0%	2.50%	2.34%	2.06%	2.08%	925	867	(58)	-6.23%
8 ($43,668)	20,066	972,085,757	30,385,481	29,597,229	(788,252)	7,235	2,485	10,346	123	233	36.1%	12.4%	3.13%	3.04%	5.27%	5.52%	1,514	1,475	(39)	-2.59%
9 ($58,699)	25,933	1,665,423,716	63,013,327	61,400,346	(1,612,981)	10,675	5,996	9,262	95	157	41.2%	23.1%	3.78%	3.69%	10.93%	11.44%	2,430	2,368	(62)	-2.56%
10 ($77,161)	26,552	3,520,678,694	192,859,563	180,547,677	(12,311,886)	15,974	6,922	3,656	79	108	60.2%	26.1%	5.48%	5.13%	33.46%	33.65%	7,263	6,800	(464)	-6.38%
10A ($77,161)	9,352	755,521,184	32,442,201	31,406,055	(1,036,147)	5,200	2,111	2,041	38	48	55.6%	22.6%	4.29%	4.16%	5.63%	5.85%	3,469	3,358	(111)	-3.19%
10B ($97,819)	9,238	917,351,701	43,000,381	41,797,944	(1,202,436)	5,319	2,656	1,263	21	36	57.6%	28.8%	4.69%	4.56%	7.46%	7.79%	4,655	4,525	(130)	-2.80%
10C ($120,652)	7,962	1,847,805,809	117,416,981	107,343,678	(10,073,303)	5,455	2,155	352	20	24	68.5%	27.1%	6.35%	5.81%	20.37%	20.00%	14,747	13,482	(1,265)	-8.58%
TOTALS	101,176	6,968,314,371	304,141,976	287,814,826	(16,327,150)	48,050	15,559	37,567	2,403	3,388	47.5%	15.4%	4.36%	4.13%	52.76%	53.64%	3,006	2,845	(161)	-5.37%

SB407 as Transmitted to the House
Retiree Households - Tax Year 2006 Impacts

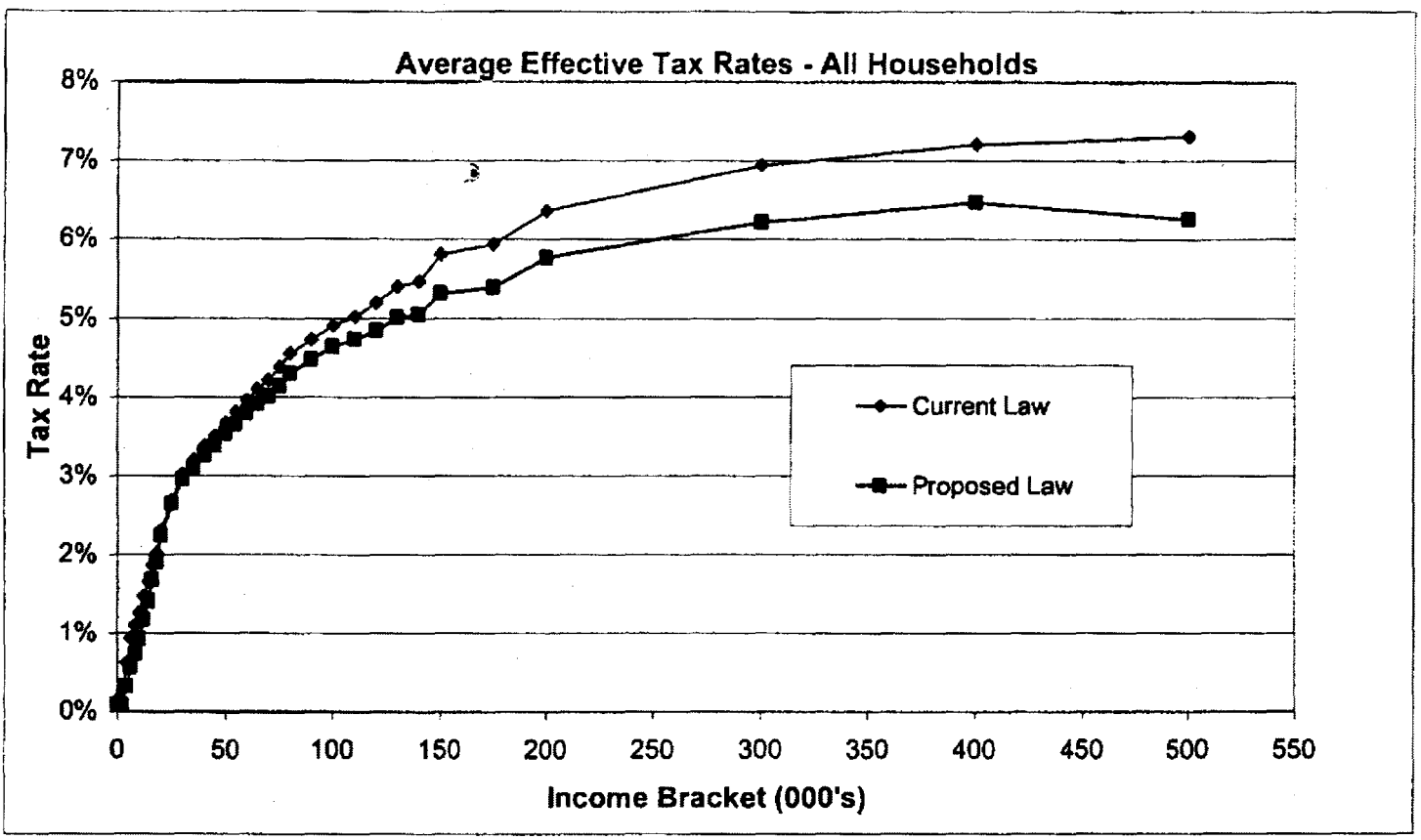
IMPACTS BY INCOME BRACKET

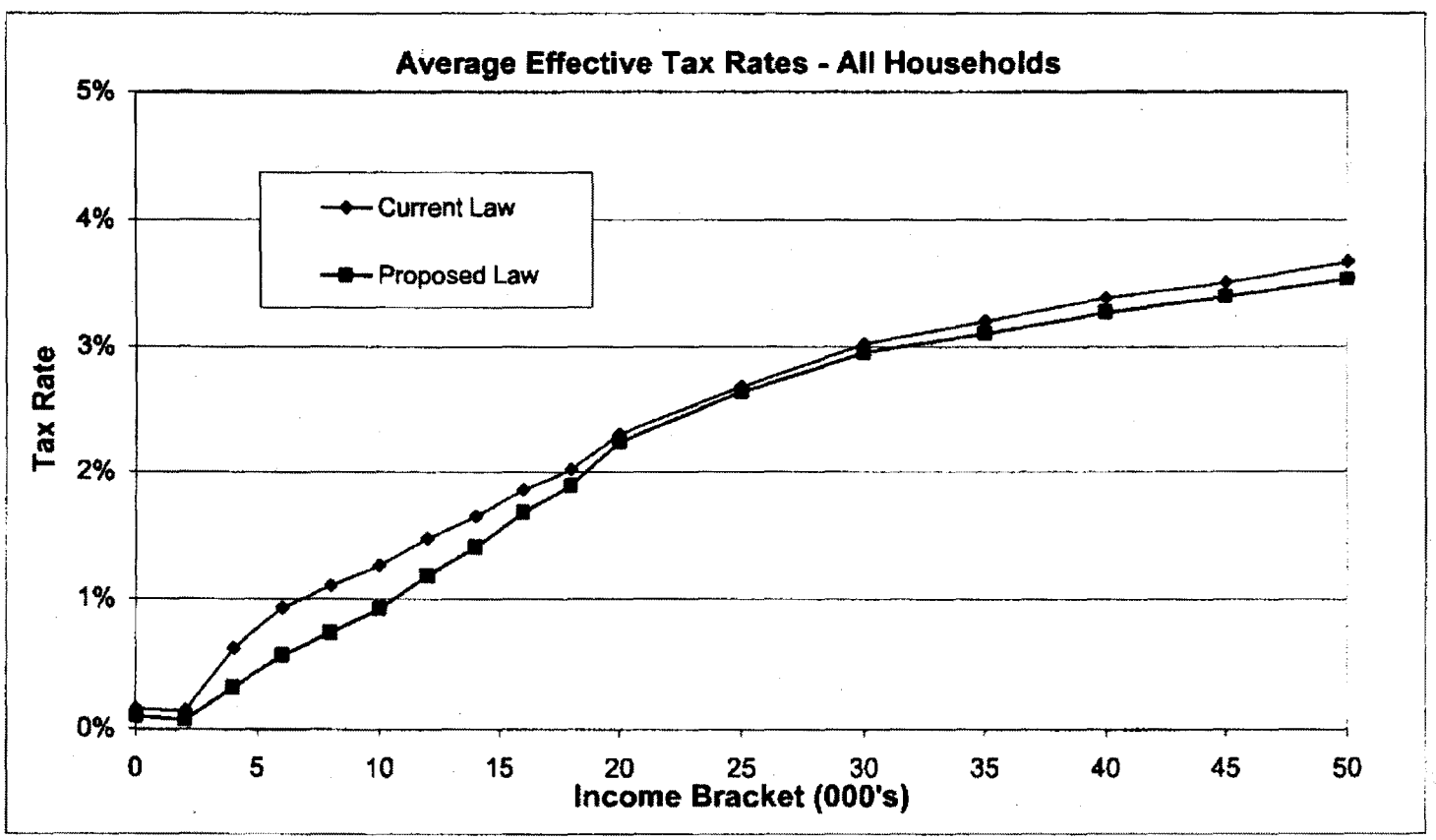
Income Bracket	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
$ 0 - $ 1,999	608	718,777	11,764	7,223	(4,542)	4	0	604	597	597	0.7%	0.0%	1.64%	1.00%	0.00%	0.00%	19	12	(7)	0.00%
$ 2,000 - $ 3,999	1,219	3,736,074	4,148	2,698	(1,450)	7	0	1,212	1,132	1,136	0.6%	0.0%	0.11%	0.07%	0.00%	0.00%	3	2	(1)	-34.95%
$ 4,000 - $ 5,999	1,818	9,189,292	12,252	7,167	(5,086)	6	0	1,812	1,574	1,582	0.3%	0.0%	0.13%	0.08%	0.00%	0.00%	7	4	(3)	-41.51%
$ 6,000 - $ 7,999	2,564	17,981,977	30,748	18,144	(12,602)	25	0	2,539	2,034	2,058	1.0%	0.0%	0.17%	0.10%	0.01%	0.00%	12	7	(5)	-40.99%
$ 8,000 - $ 9,999	3,191	28,732,670	81,040	50,659	(30,381)	171	0	3,020	2,073	2,121	5.4%	0.0%	0.28%	0.18%	0.01%	0.01%	25	16	(10)	-37.49%
$ 10,000 - $ 11,999	3,511	38,626,556	136,714	90,077	(46,637)	365	0	3,146	2,144	2,192	10.4%	0.0%	0.35%	0.23%	0.02%	0.02%	39	26	(13)	-34.11%
$ 12,000 - $ 13,999	3,573	46,501,748	226,428	158,338	(68,090)	459	0	3,114	1,751	1,834	12.8%	0.0%	0.49%	0.34%	0.04%	0.03%	63	44	(19)	-30.07%
$ 14,000 - $ 15,999	3,747	56,144,126	354,818	269,649	(84,969)	663	3	3,081	1,578	1,671	17.7%	0.1%	0.63%	0.48%	0.06%	0.05%	95	72	(23)	-23.96%
$ 16,000 - $ 17,999	3,544	60,242,837	489,570	396,230	(93,340)	737	6	2,801	1,221	1,283	20.8%	0.2%	0.81%	0.66%	0.08%	0.07%	138	112	(26)	-19.07%
$ 18,000 - $ 19,999	3,390	64,326,363	605,220	512,409	(92,811)	779	8	2,603	1,018	1,090	23.0%	0.2%	0.94%	0.80%	0.10%	0.10%	179	151	(27)	-15.34%
$ 20,000 - $ 24,999	7,301	163,705,951	2,032,805	1,824,179	(208,626)	1,806	27	5,468	1,601	1,753	24.7%	0.4%	1.24%	1.11%	0.35%	0.34%	278	250	(29)	-10.26%
$ 25,000 - $ 29,999	6,027	165,372,241	3,075,406	2,963,244	(112,162)	1,389	102	4,536	737	841	23.0%	1.7%	1.86%	1.79%	0.53%	0.55%	510	492	(19)	-3.65%
$ 30,000 - $ 34,999	5,198	168,572,419	4,065,392	3,970,631	(94,761)	1,353	179	3,666	362	442	26.0%	3.4%	2.41%	2.36%	0.71%	0.74%	782	764	(18)	-2.33%
$ 35,000 - $ 39,999	4,744	177,841,411	4,842,993	4,720,418	(122,575)	1,581	261	2,902	237	295	33.3%	5.5%	2.72%	2.65%	0.84%	0.88%	1,021	995	(26)	-2.53%
$ 40,000 - $ 44,999	4,361	185,070,486	5,550,410	5,415,036	(135,374)	1,700	390	2,271	142	174	39.0%	8.9%	3.00%	2.93%	0.96%	1.01%	1,273	1,242	(31)	-2.44%
$ 45,000 - $ 49,999	4,006	190,159,191	6,158,590	6,019,118	(139,472)	1,818	528	1,860	111	124	40.4%	13.2%	3.24%	3.17%	1.07%	1.12%	1,537	1,503	(35)	-2.26%
$ 50,000 - $ 54,999	3,683	193,420,239	8,642,771	8,444,398	(198,373)	1,715	664	1,304	102	112	46.6%	18.0%	3.43%	3.33%	1.15%	1.20%	1,804	1,750	(54)	-2.99%
$ 55,000 - $ 59,999	3,308	190,024,991	6,867,754	6,656,059	(211,695)	1,544	725	1,039	75	81	46.7%	21.9%	3.61%	3.50%	1.19%	1.24%	2,076	2,012	(64)	-3.08%
$ 60,000 - $ 64,999	3,075	192,147,290	7,257,892	7,008,024	(249,868)	1,480	757	838	64	70	48.1%	24.6%	3.78%	3.65%	1.26%	1.31%	2,360	2,279	(81)	-3.44%
$ 65,000 - $ 69,999	2,582	174,066,270	6,827,256	6,604,125	(223,131)	1,265	681	636	37	36	49.0%	26.4%	3.92%	3.79%	1.18%	1.23%	2,644	2,558	(86)	-3.27%
$ 70,000 - $ 74,999	2,206	159,717,131	6,482,624	6,242,626	(239,997)	1,144	566	496	46	47	51.9%	25.7%	4.06%	3.91%	1.12%	1.16%	2,939	2,830	(109)	-3.70%
$ 75,000 - $ 79,999	1,890	146,229,620	6,157,683	5,913,271	(244,411)	1,037	516	337	29	29	54.9%	27.3%	4.21%	4.04%	1.07%	1.10%	3,258	3,129	(129)	-3.97%
$ 80,000 - $ 89,999	2,658	224,986,807	9,874,050	9,485,893	(388,157)	1,486	779	393	43	41	55.9%	29.3%	4.39%	4.22%	1.71%	1.77%	3,715	3,569	(146)	-3.93%
$ 90,000 - $ 99,999	1,818	172,198,640	7,988,975	7,656,941	(332,034)	1,048	567	203	27	23	57.6%	31.2%	4.64%	4.45%	1.39%	1.43%	4,394	4,212	(183)	-4.16%
$100,000 - $109,999	1,203	126,083,022	6,032,914	5,802,116	(230,798)	691	380	132	21	23	57.4%	31.6%	4.78%	4.60%	1.06%	1.08%	5,015	4,823	(192)	-3.83%
$110,000 - $119,999	842	96,555,189	4,792,770	4,572,288	(220,482)	520	263	59	14	14	61.8%	31.2%	4.96%	4.74%	0.83%	0.85%	5,692	5,430	(262)	-4.60%
$120,000 - $129,999	592	73,848,735	3,837,125	3,605,330	(231,795)	380	173	39	7	6	64.2%	29.2%	5.20%	4.88%	0.67%	0.67%	6,482	6,090	(392)	-6.04%
$130,000 - $139,999	480	64,797,875	3,408,354	3,212,138	(196,216)	339	124	17	5	3	70.6%	25.8%	5.26%	4.96%	0.59%	0.60%	7,101	6,692	(409)	-5.76%
$140,000 - $149,999	334	48,298,366	2,574,981	2,414,035	(160,946)	221	100	13	5	6	66.2%	29.9%	5.33%	5.00%	0.45%	0.45%	7,710	7,228	(482)	-6.25%
$150,000 - $174,999	612	98,416,727	5,583,441	5,187,430	(396,011)	430	150	32	7	7	70.3%	24.5%	5.67%	5.27%	0.97%	0.97%	9,123	8,476	(647)	-7.09%
$175,000 - $199,999	416	77,711,706	4,503,803	4,079,086	(424,717)	316	82	18	6	4	76.0%	19.7%	5.80%	5.25%	0.78%	0.76%	10,826	9,805	(1,021)	-9.43%
$200,000 - $299,999	589	140,714,489	8,752,447	7,985,382	(767,065)	449	129	11	6	4	76.2%	21.9%	6.22%	5.67%	1.52%	1.49%	14,860	13,558	(1,302)	-8.76%
$300,000 - $399,999	196	67,398,631	4,591,215	4,088,258	(502,957)	156	40	0	1	0	79.6%	20.4%	6.81%	6.07%	0.80%	0.76%	23,425	20,858	(2,568)	-10.95%
$400,000 - $499,999	112	49,845,540	3,564,243	3,135,677	(428,567)	92	20	0	0	0	82.1%	17.9%	7.15%	6.29%	0.62%	0.58%	31,824	27,997	(3,828)	-12.02%
$500,000+	185	214,965,000	16,187,935	13,908,086	(2,279,849)	152	31	2	4	3	82.2%	16.8%	7.53%	6.47%	2.81%	2.59%	87,502	75,179	(12,324)	-14.08%
TOTALS	85,583	3,888,350,387	149,606,329	140,426,383	(9,179,947)	27,128	8,251	50,204	18,809	19,702	31.7%	9.6%	3.85%	3.61%	25.95%	26.17%	1,748	1,641	(107)	-6.14%

IMPACTS BY DECILE GROUP

Decile Group	Number of Households	Total Income	Current Law Tax	Proposed Law Tax	Difference	No. of Gainers	No. of Losers	No Change	No Tax Liability: Current Law	No Tax Liability: Proposed Law	% of Gainers	% of Losers	Effective Tax Rates: Current Law	Effective Tax Rates: Proposed Law	Percent of Total Liability: Current Law	Percent of Total Liability: Proposed Law	Current Law Ave. Tax	Proposed Law Ave. Tax	Dollar Change in Ave. Liab.	% Change in Ave. Liab.
1 ($0)	2,044	5,355,005	16,493	10,210	(6,283)	11	0	2,033	1,921	1,925	0.5%	0.0%	0.31%	0.19%	0.00%	0.00%	8	5	(3)	-38.09%
2 ($4,949)	4,787	31,374,001	55,065	32,706	(22,359)	61	0	4,726	3,829	3,887	1.3%	0.0%	0.18%	0.10%	0.01%	0.01%	12	7	(5)	-40.60%
3 ($8,581)	7,799	83,734,424	303,384	200,311	(103,053)	702	0	7,097	4,684	4,812	9.0%	0.0%	0.36%	0.24%	0.05%	0.04%	39	26	(13)	-33.97%
4 ($13,896)	8,892	136,875,767	930,590	721,615	(208,975)	1,614	8	7,270	3,584	3,782	18.2%	0.1%	0.68%	0.53%	0.18%	0.13%	105	81	(24)	-22.46%
5 ($19,422)	9,271	191,753,268	2,097,672	1,840,048	(257,624)	2,235	28	7,008	2,403	2,608	24.1%	0.3%	1.09%	0.96%	0.38%	0.34%	226	198	(28)	-12.28%
6 ($25,447)	9,558	263,455,800	4,951,695	4,760,133	(191,562)	2,189	163	7,206	1,192	1,349	22.9%	1.7%	1.88%	1.81%	0.88%	0.89%	518	498	(20)	-3.87%
7 ($33,994)	9,747	357,148,595	9,601,302	9,371,116	(230,186)	3,142	527	6,078	501	623	32.2%	5.4%	2.69%	2.62%	1.67%	1.75%	985	961	(24)	-2.40%
8 ($43,668)	10,343	498,229,536	16,274,145	15,845,434	(428,711)	4,400	1,432	4,511	296	337	42.5%	13.8%	3.27%	3.18%	2.82%	2.95%	1,573	1,532	(41)	-2.63%
9 ($56,699)	11,260	721,751,650	27,677,550	26,742,423	(935,127)	5,485	2,753	3,022	224	236	48.7%	24.4%	3.83%	3.71%	4.80%	4.98%	2,458	2,375	(83)	-3.38%
10 ($77,161)	11,882	1,598,672,541	87,698,453	80,902,387	(6,796,066)	7,289	3,340	1,253	175	163	61.3%	28.1%	5.49%	5.06%	15.21%	15.08%	7,381	6,809	(572)	-7.75%
10A ($77,161)	3,958	319,402,619	13,787,201	13,223,918	(563,283)	2,195	1,107	656	61	61	55.5%	28.0%	4.32%	4.14%	2.39%	2.46%	3,483	3,341	(142)	-4.09%
10B ($97,819)	4,173	415,446,144	19,466,898	18,709,203	(757,695)	2,397	1,324	452	71	88	57.4%	31.7%	4.69%	4.50%	3.38%	3.49%	4,665	4,483	(182)	-3.89%
10C ($120,652)	3,751	863,823,778	54,444,353	48,969,265	(5,475,088)	2,697	909	145	43	34	71.9%	24.2%	6.30%	5.67%	9.44%	9.13%	14,515	13,055	(1,460)	-10.06%
TOTALS	85,583	3,888,350,387	149,606,329	140,426,383	(9,179,947)	27,128	8,251	50,204	18,809	19,702	31.7%	9.6%	3.85%	3.61%	25.95%	26.17%	1,748	1,641	(107)	-6.14%

SB407 as Transmitted to the House
Tax Year 2006 Impacts





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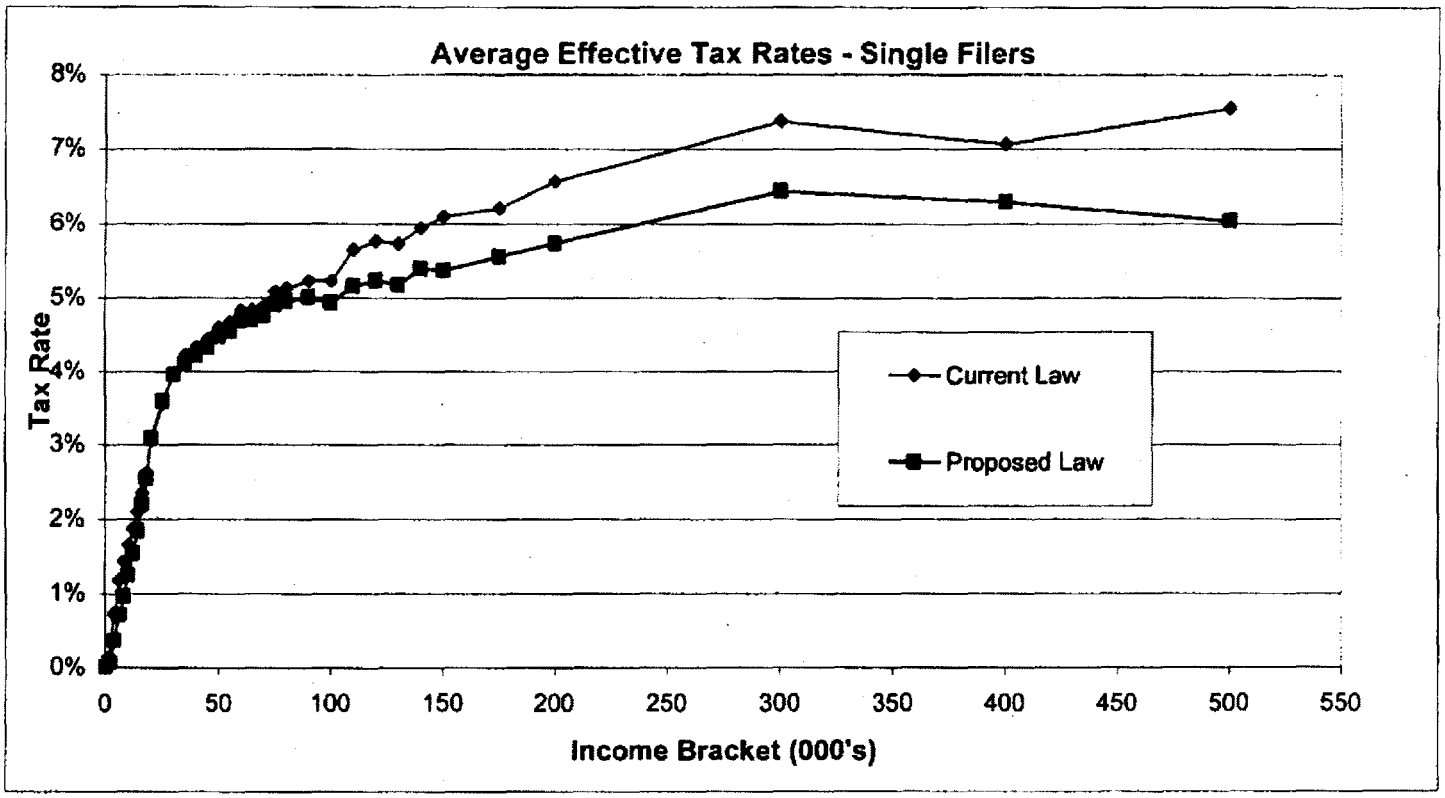

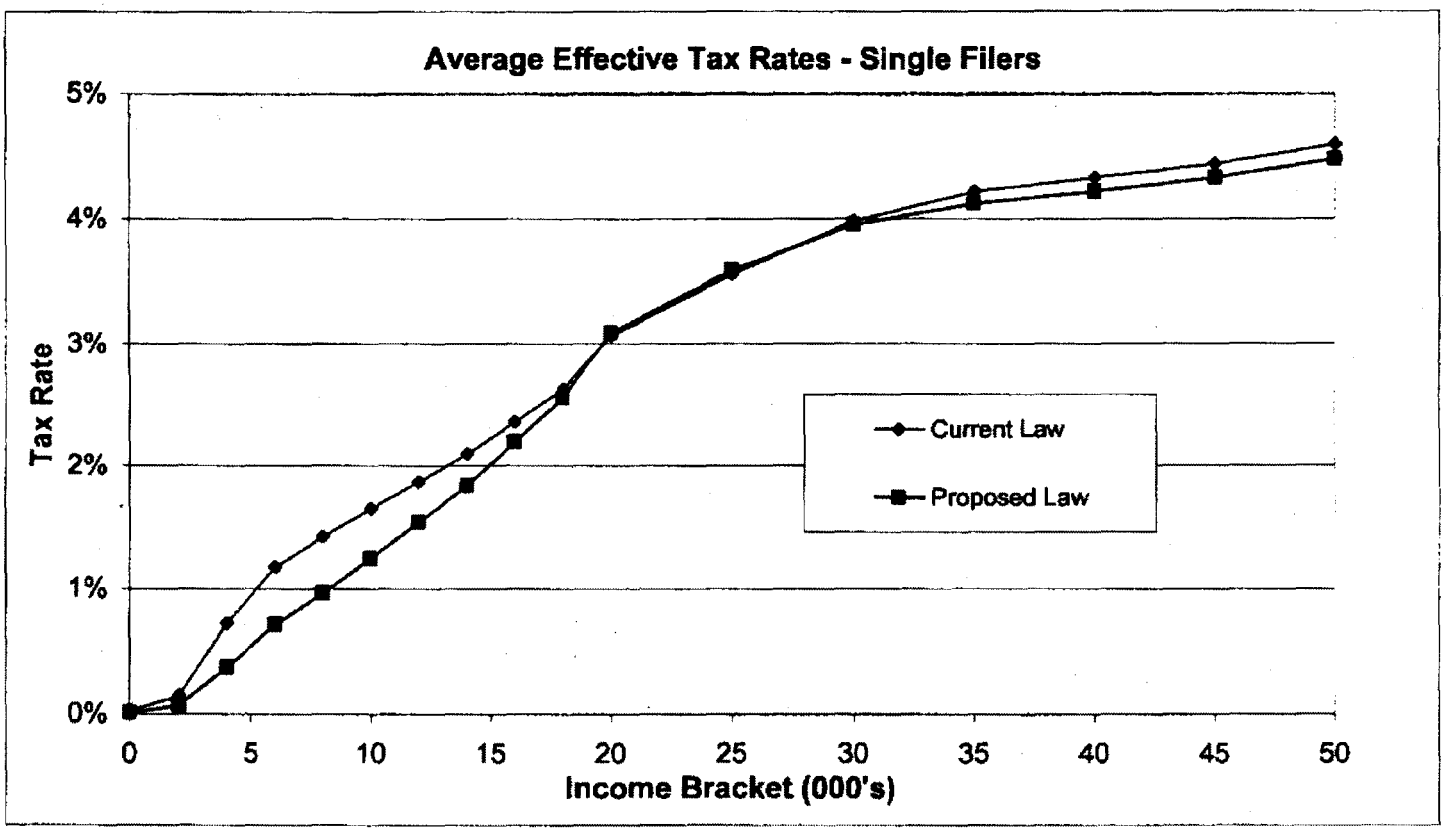

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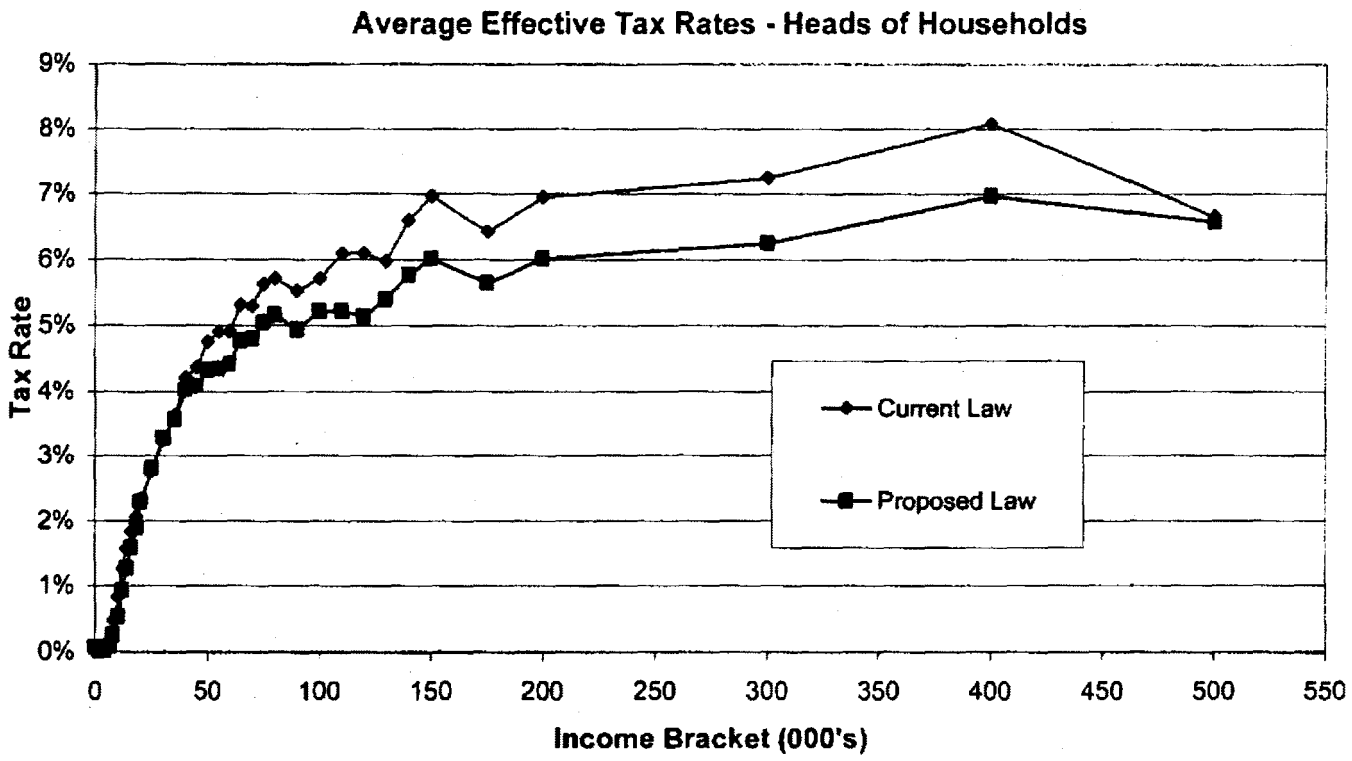

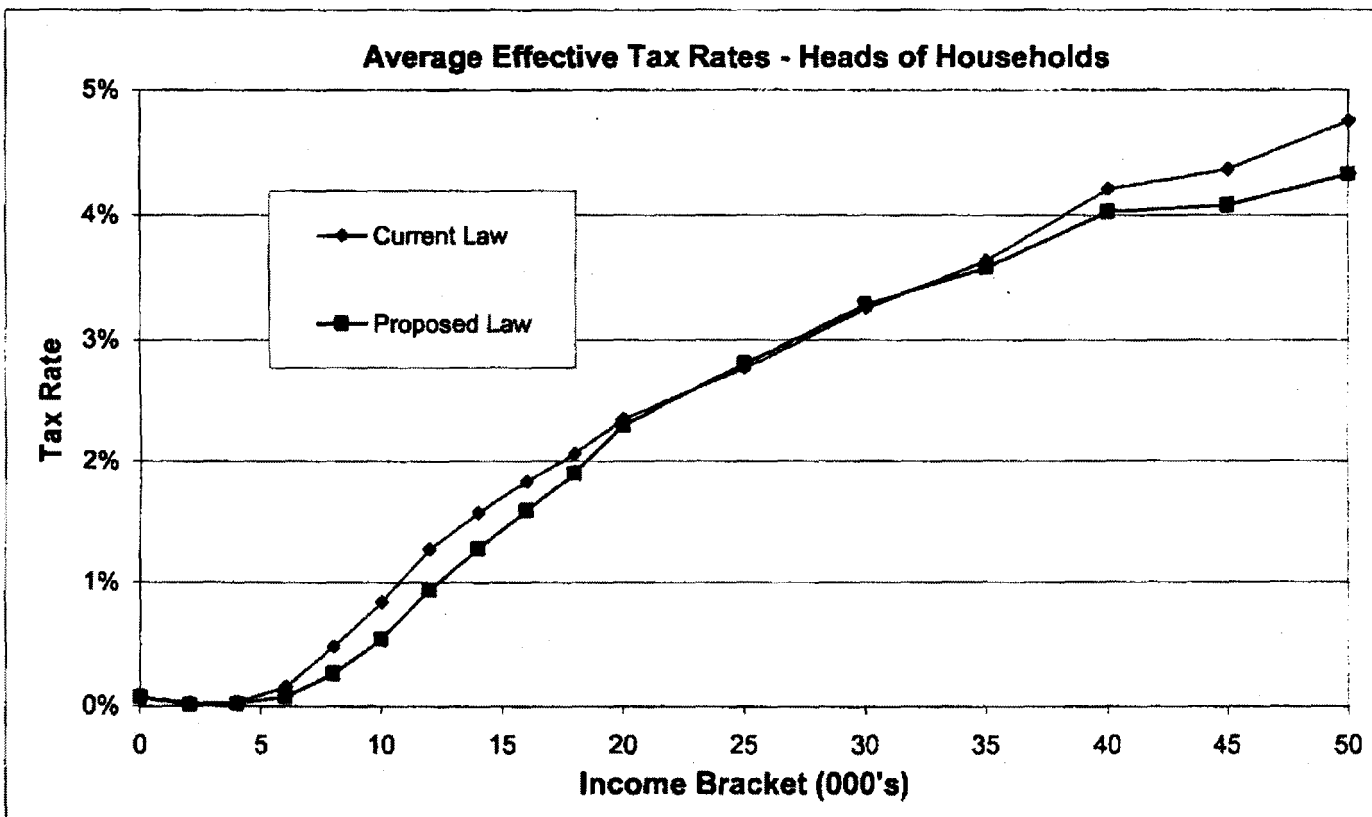

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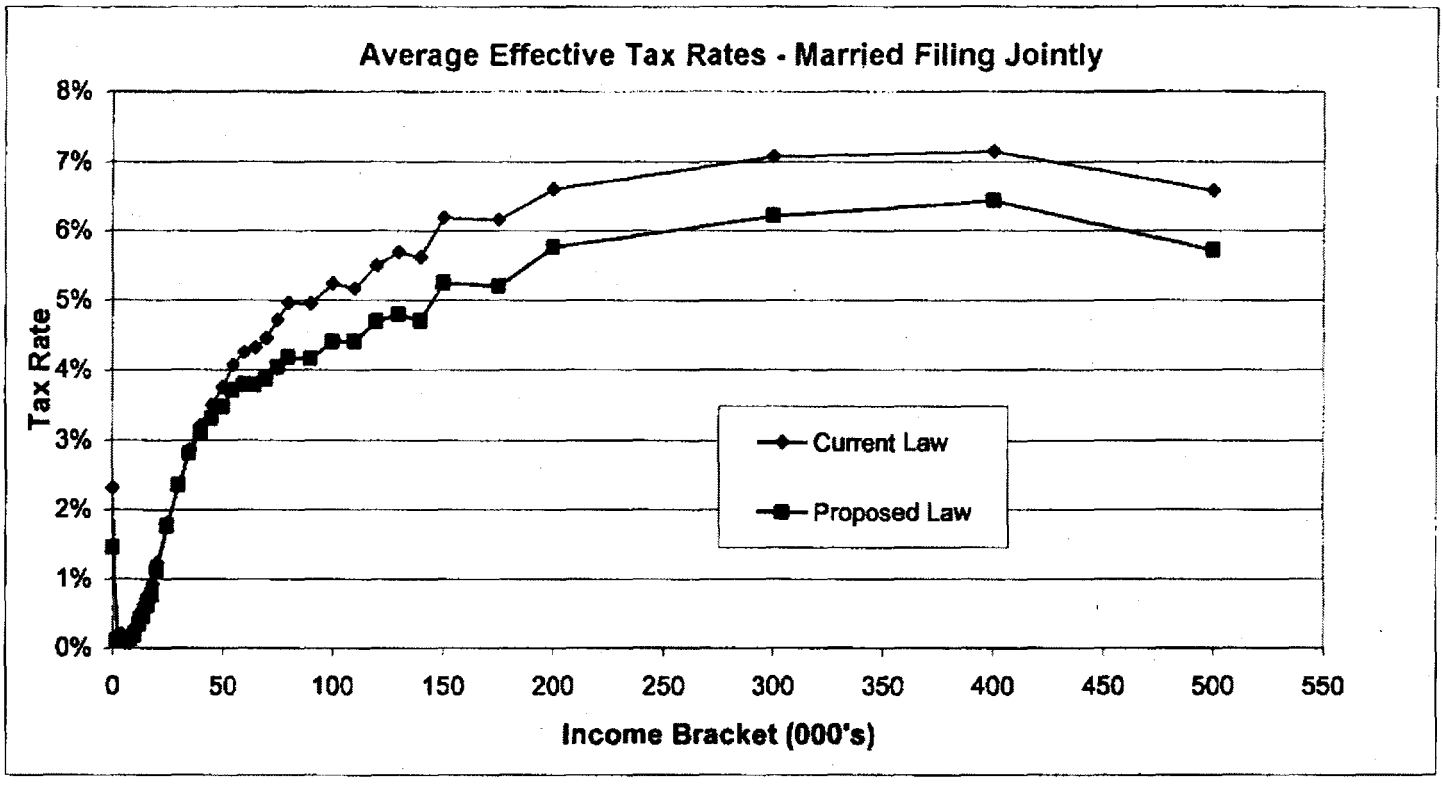

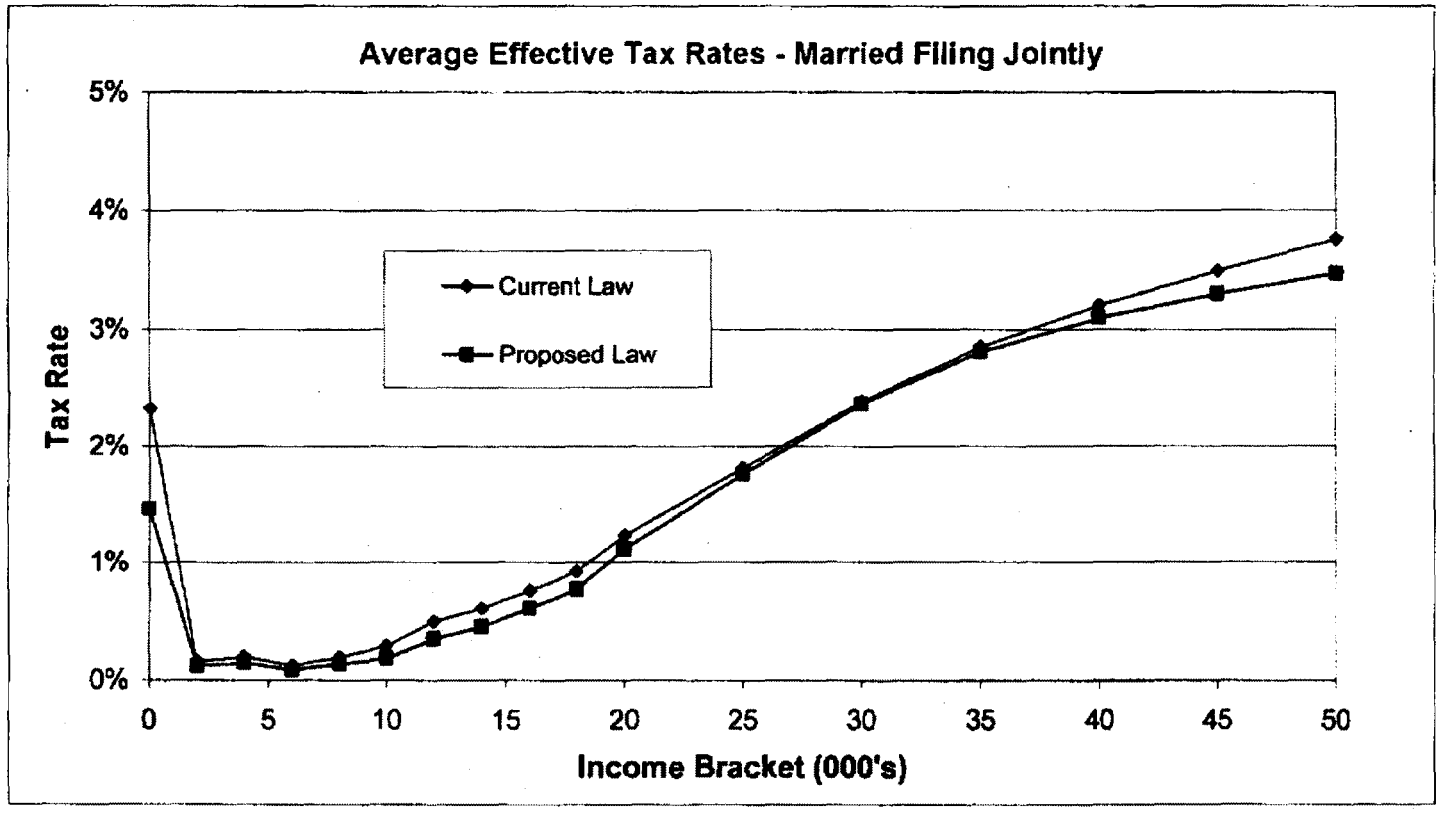

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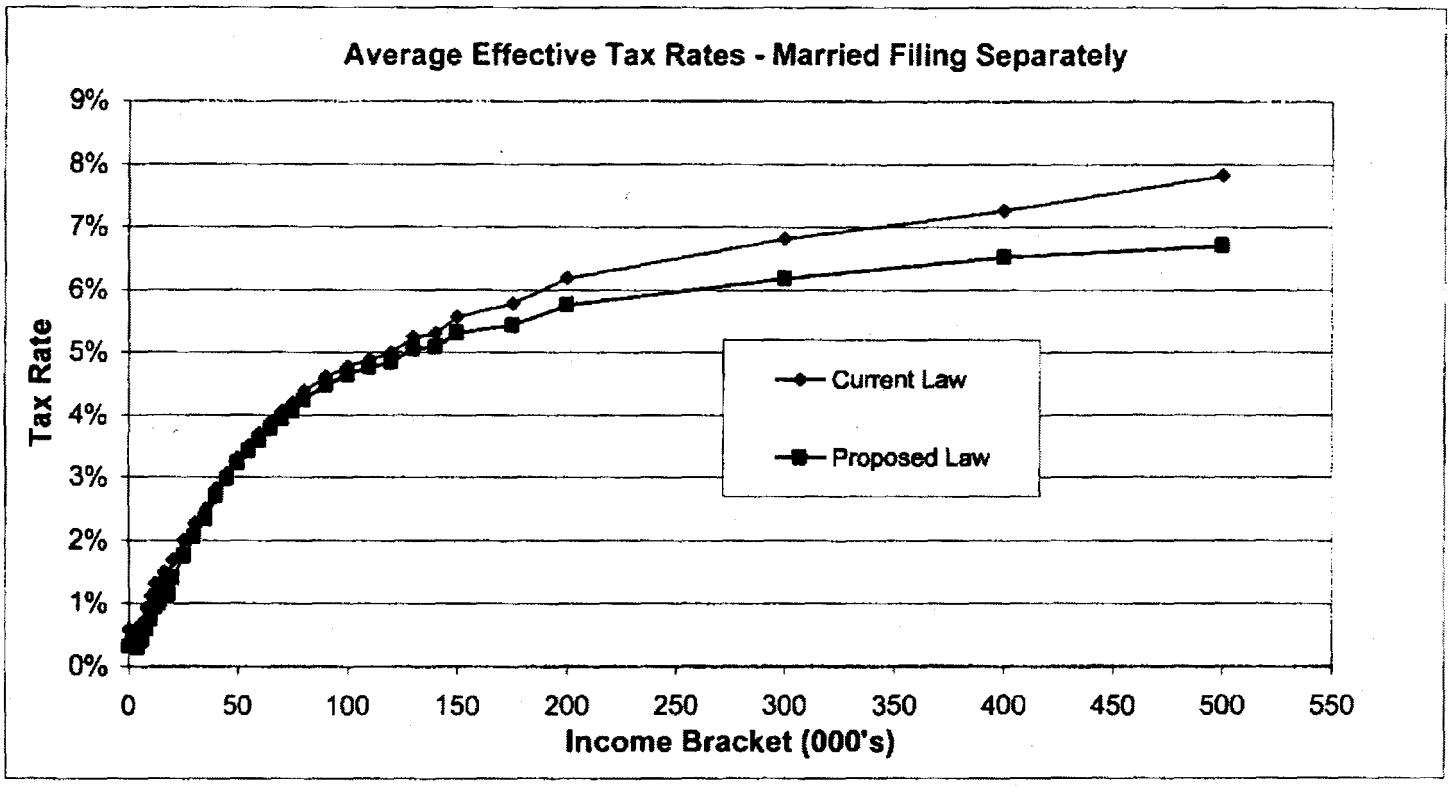

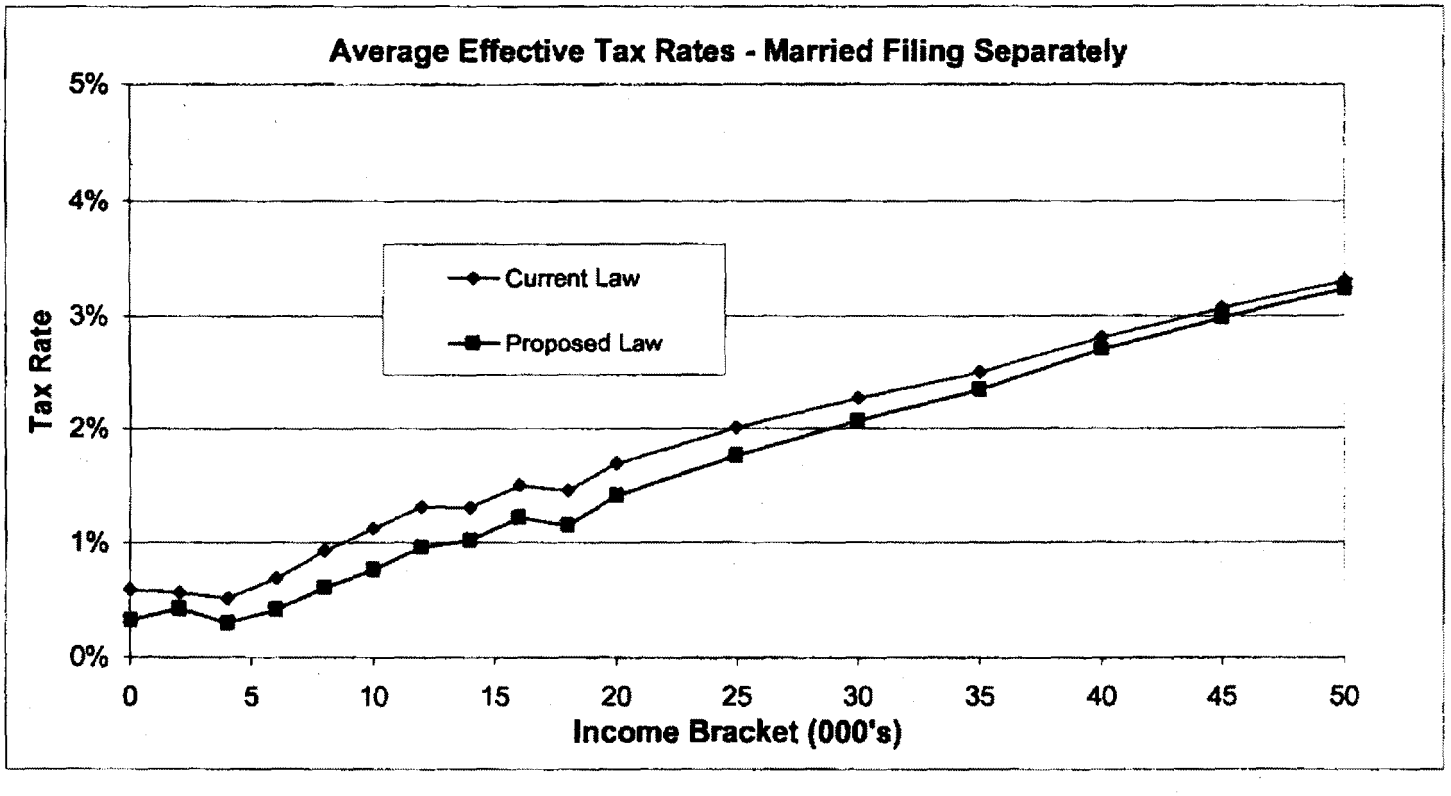

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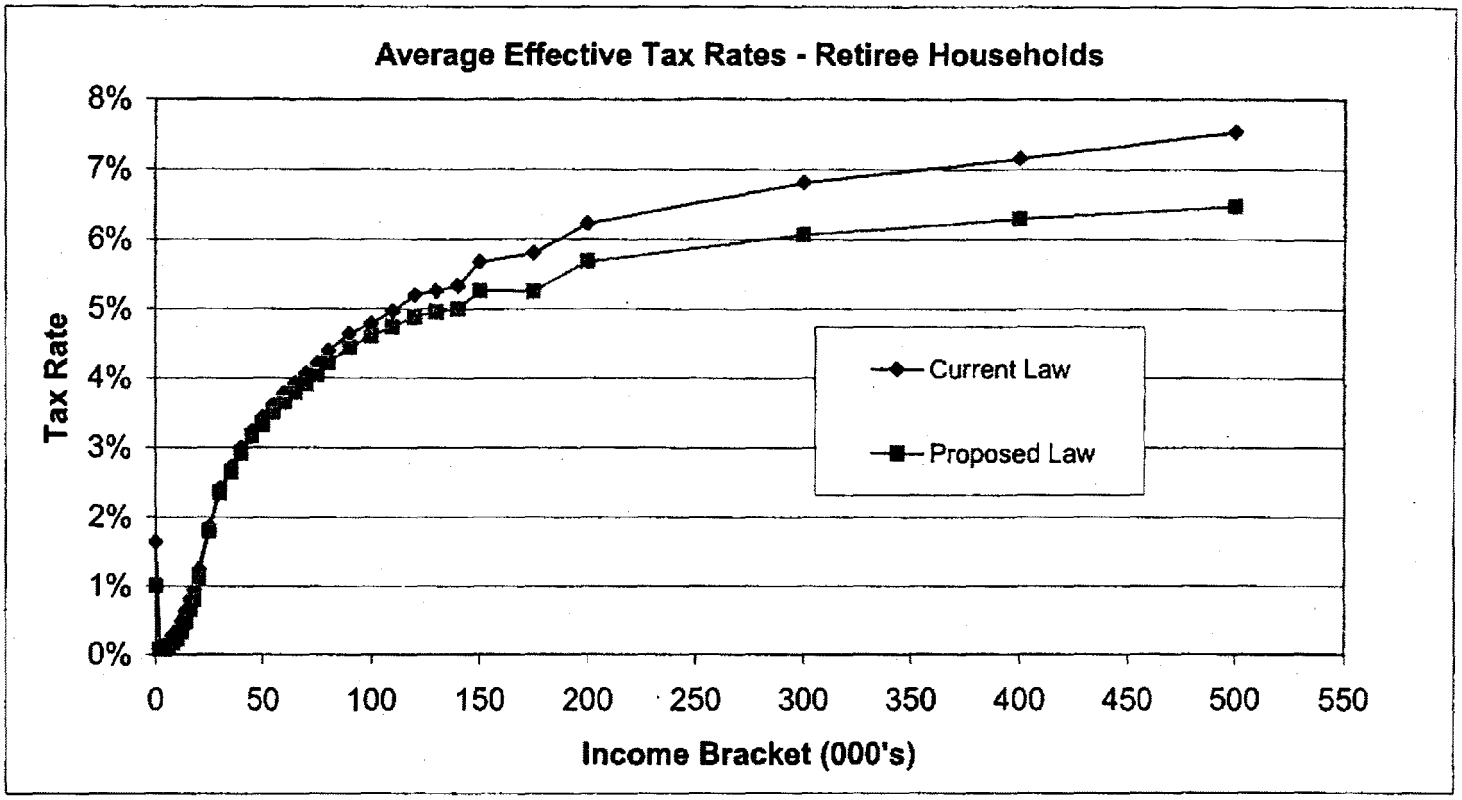
Tax Year 2006 Impacts



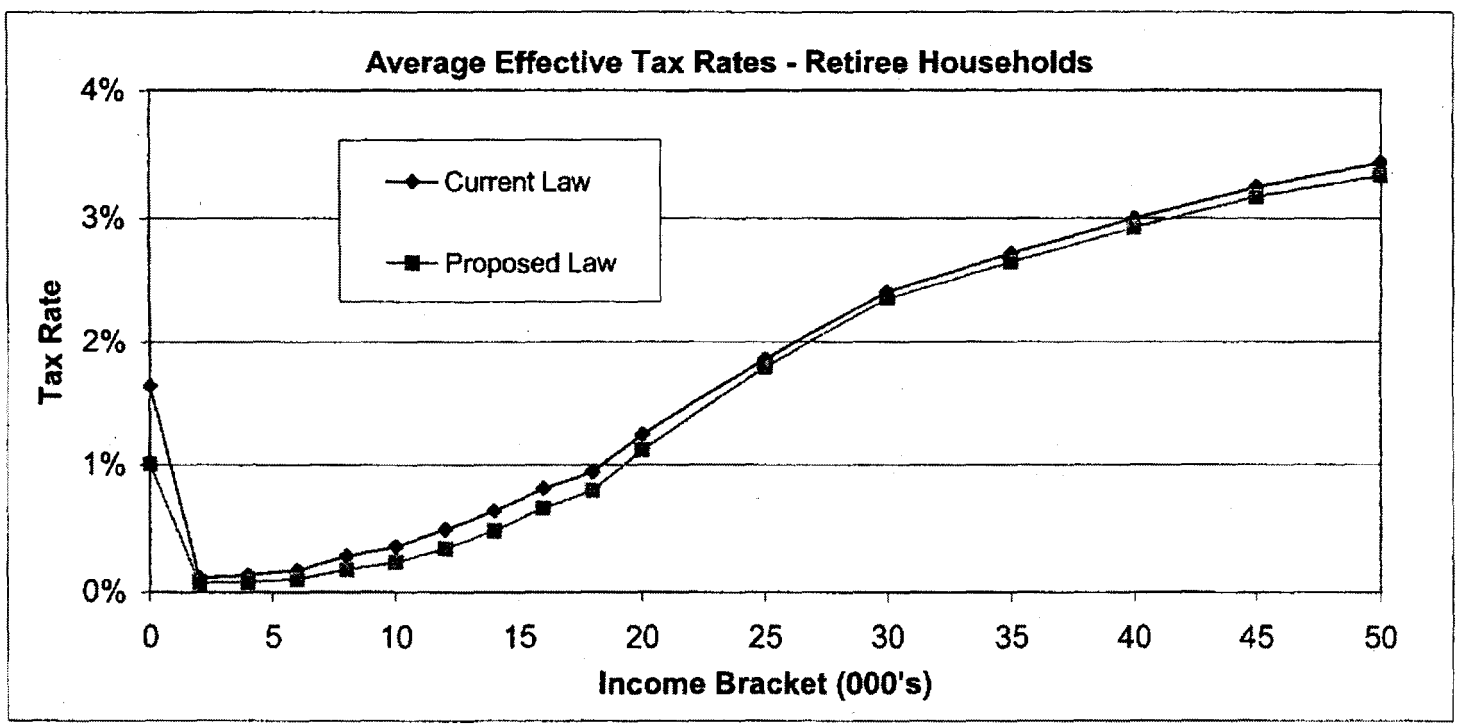


EXHIBIT 4
TE 4-8-03

First...
Reform our individual income tax

- Reduce taxes overall by at least 10%
- Reduce our top marginal tax rate from 11% to 6.9% (see rate table)
- Provide for a 1% capital gains tax credit (maximum rate on capital gains of 5.9%)
- Cap the federal income tax deduction at $5,000 ($10,000 if married and filing jointly)

Martz/Ohs Proposal - TY2006

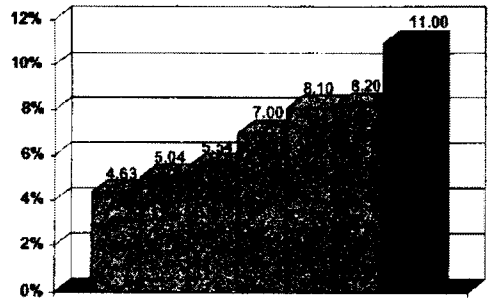
0	2,400	2%	
2,400	4,900	3%	(24)
4,900	9,700	4%	(73)
9,700	14,600	5%	(170)
14,600	19,500	6%	(316)
19,500	24,300	7%	(511)
24,300	34,100	8%	(754)
34,100	48,700	9%	(1,095)
48,700	85,100	10%	(1,582)
85,100		11%	(2,433)

0	3,400	1%	
3,400	5,000	2%	(34)
5,000	7,500	3%	(84)
7,500	10,000	4%	(159)
10,000	12,500	5%	(259)
12,500	15,000	6%	(384)
15,000		6.9%	(519)

Reducing our top marginal tax rate from 11% to 6.9% eliminates our "perception problem," makes Montana competitive when compared to neighboring Rocky Mountain States...

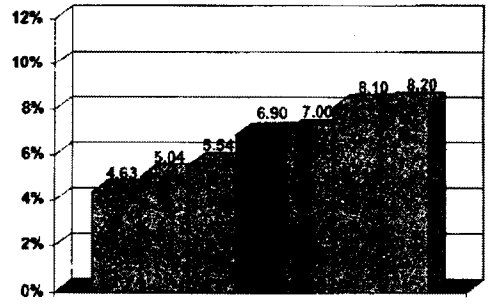
Current Law

Highest Statutory Income Tax Rate
Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.



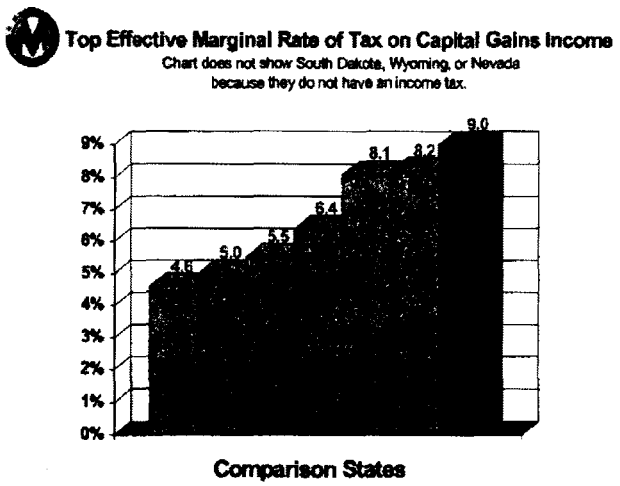
Proposed Law

Highest Statutory Income Tax Rate
Chart does not show South Dakota, Wyoming, or Nevada because they do not have an income tax.

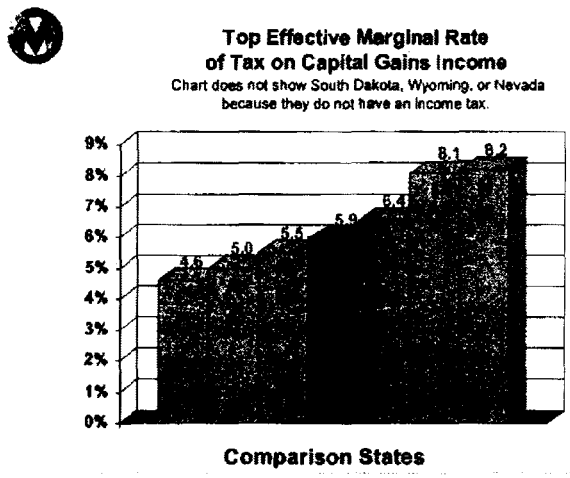


...and reduces our combined federal/state effective tax rate on capital gains income by as much as 37%.

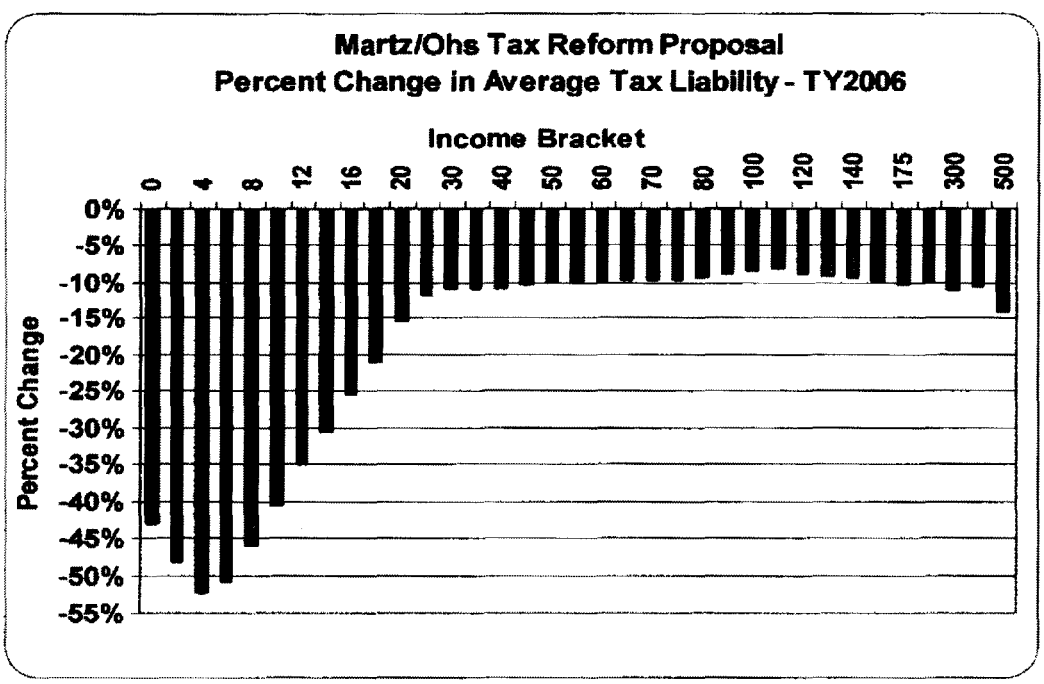
Current Law



Proposed Law



Individual income taxes decrease (68%), or don't change (29%) for 97% of all taxpayers. Average percentage reductions in tax are larger for low-income households to protect low-income taxpayers, and preserve progressivity of overall tax system.



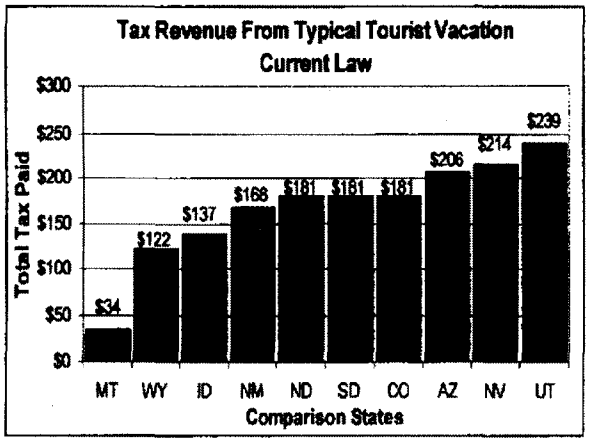
Income taxes are reduced for households with ordinary income of $30,000 in regular years, and in years in which the household experiences a one-time capital gain from the sale of the taxpayer's business, ranch or farm.

Impact on Married Couple Filing Jointly with $30,000 Ordinary Income and One Child	
Current Law Tax Liability	$610
Proposed Law Tax Liability	$517
Change in Tax (PL - CL)	**($93)**
Percent Change in Tax	**-15.25%**

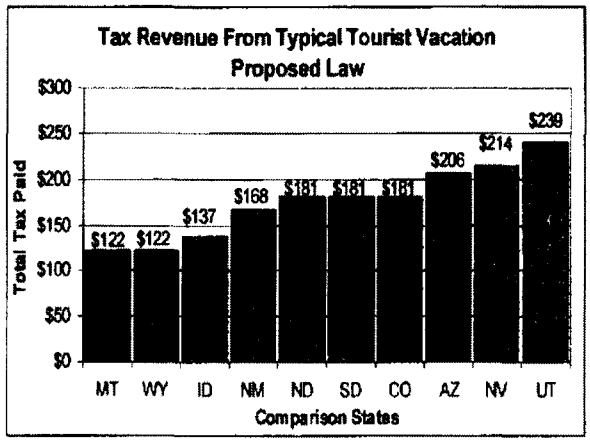
Impact on Married Couple with $30,000 Ordinary Income; $500,000 Cap. Gains Inc. from One-Time Sale of Ranch, Farm, or Business		
Current Law Tax Liability		$43,688
Proposed Law Tax Liability		
- Before Capital Gains Tax Credit	$34,075	
- Capital Gains Tax Credit	(5,000)	
- After Capital Gains Tax Credit		$29,075
Change in Tax (PL - CL)		**($14,613)**
Percent Change in Tax		**-33.45%**

Second...
Provide replacement revenue

- A limited sales tax levied on items purchased largely by nonresidents
- Nonresidents pay approximately 44% of the total tax collected
- Montana merchants are compensated for collecting the tax with a "vendor allowance"



Amounts paid by tourists continue to be less than amounts paid in surrounding states.



Third...
Ensure a net benefit to Montana residents

- Resident income taxes reduced $69 million
- Resident limited sales taxes increased $38 million
- Resident federal income taxes increased $13 million due to reduced state income taxes
- Net state and federal tax on Montanans reduced $18 million
- Replacing all income tax with general sales tax would result in substantial federal income tax increase for residents

Shift of Tax Burden to Nonresidents
Tax Year 2006

Proposal Component	Montana Residents	Nonresidents	Total Impact
State Income Tax Cut	$(69 million)	$(5 million)	$(74 million)
Limited Sales Tax	$38 million	$30 million	$68 million
State Tax Change	**$(31 million)**	**$25 million**	**$(6 million)***
Fed. Income Tax Increase	$13 million	- 0 -	
Combined State and Federal Tax Change	**$(18 million)**	**$25 million**	

Nonresidents pay 7% of the income tax, but will pay approximately 44% of replacement revenue. Above impacts do not include any reduction in federal tax that may arise due to the deductibility of sales taxes paid by businesses.

**Although state tax collection are reduced in 2006, the plan is revenue neutral over the 2005 biennium.*

On average, taxpayers in all income classes are nearly as well off, or better off, under this tax reform proposal.

Combined Income Tax / Replacement Revenue Impact
Montana Residents - By Income Bracket - CY2006

Income Bracket	Income Tax Reduction	Limited Sales Tax	Net Tax Impact
$5,000 to $9,999	($38)	$40	$2
$10,000 to $14,999	($66)	$52	($14)
$15,000 to $19,999	($83)	$70	($13)
$20,000 to $29,999	($85)	$88	$3
$30,000 to $39,999	($117)	$115	($2)
$40,000 to $49,999	($161)	$129	($32)
$50,000 to $69,999	($227)	$159	($68)
$70,000 and over	($766)	$257	($509)
Statewide	**($179)**	**$110**	**($69)**

EXHIBIT 5
DATE 4-8-03
SB 407

MONTANA TOURISM ADVISORY COUNCIL
301 S Park
Helena, MT 59620

Contact: Kathy Brown
Tourism Advisory Council Chair
(406) 443-2160

For Immediate Release

MONTANA'S TOURISM ADVISORY COUNCIL SUPPORTS MARTZ TAX REFORM POLICY

Helena, MT-October 30, 2002 – The Montana Tourism Advisory Council (TAC) voted to support two components of the Martz Tax Reform Policy at a recent TAC meeting held in Miles City. TAC supports the concept of finding a replacement tax to offset the reduction in capitol gains tax and the proposed 10% income tax cut for Montanans.

"We believe the proposed selective tax, which is a limited sales tax on those goods and services of which nonresidents buy the most, will not adversely affect Montana's tourism industry," said Kathy Brown, TAC Chair. "While there have been some Big Sky area businesses concerned the selective tax is unfair and would cut into their businesses, overall we don't anticipate a negative impact."

Brown explained that TAC is in support of the selective tax as long as it does not exceed 4% and that the structure and budget of the "Bed Tax" for tourism marketing remain at least at the current level. The Montana Department of Commerce's Travel Montana received approximately $7.2 million in 2002 to support marketing efforts. TAC also advocates additional promotional funding to insure the economic viability of the tourism industry.

The Martz Tax Reform Plan proposes to cut income taxes by 10% in a manner that benefits all classes of Montana taxpayers, and to reduce Montana's effective capital gains rates, which are the highest in the region.

The Governor-appointed TAC is currently composed of 16 Montanans from the private sector travel industry. The role of TAC is to advise the Governor on matters relating to travel and tourism in Montana, make recommendations to The Department of Commerce, Travel Montana, and oversee the distribution of funds as well as set regulations for Montana's six non-profit tourism regions and ten Convention and Visitor Bureaus.

Tourism is one of Montana's largest industries. Montana hosted 9.55 million nonresidents in 2001. These visitors spent $1.6 billion during their stay.

-30-

December 20, 2002

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DIRECTOR'S OFFICE

MONTANA BANKERS ASSOCIATION
1 N. Last Chance Gulch
Suite 4
Helena, MT 59601
Fax (406) 443-7850
Phone (406) 443-4121

Kurt Alme, Director
Montana Department of Revenue
Sam W. Mitchell Building
P.O. Box 5805
Helena, MT 59604-5805

Dear Kurt Alme:

On behalf of the 80 banks in Montana, we endorse the Administration's tax plan. We agree reducing the income tax and replacing it with a tourist sales tax will be an incentive for economic growth for all Montanans.

Thank you again for your presentation to our volunteer leaders at their meeting in Helena last month.

I will be happy to assist you in passing this proposal.

Respectfully Yours,

John T. Cadby
President/CEO

29

Montana AMBASSADORS

Department of Commerce • PO Box 200501 • Helena, MT 59620-0501 • 406/444-3797

December 19, 2002

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DEPARTMENT OF COMMERCE
DIRECTOR'S OFFICE

Mr. Mark Simonich
Director
Montana Department of Commerce
P.O. Box 200501
Helena, MT 59620-0501

Re: Martz/Ohs Tax Reform Plan for 2003

Dear Mark:

The Montana Ambassadors have long supported realistic tax reform to enhance economic development strategy for the state. My position paper earlier this year to all Ambassadors stated just this position.

The administration's tax reform plan is viewed as both needed and sensible. The state legislature must take these steps in order to bring our state into a more attractive and competitive position. The effort of all those who dedicated time and personal attention to the Tax Advisory Councils should be fully recognized, and their findings carefully considered. Their effort should not be in vain.

Accordingly, on behalf of the Montana Ambassadors, I fully support the proposed Tax Reform Plan, and we stand ready to testify in support thereof.

Sincerely yours,

John P. Langenheim
President

cc (e-mail): Mr. D. Anderson
Mr. E. Erhardt
Mr. K. Colbo

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MIKA POSITION
GOVERNOR'S TAX PLAN
Adopted at General Membership Meeting, November 19, 2002

"The Montana Innkeepers Association (MIKA) supports the Governor's Proposed Tax Plan to lower the state's Capital Gains Tax and the Personal Income Tax by using revenue generated from a selective sales tax. MIKA offers support with the stipulation the Accommodation Tax currently allocated to tourism promotion be protected and further we request the promotional budget be increased to help economic development in the state.

MIKA also requests the name of the Governor's Tourist Tax be changed to clearly reflect the intent of the tax and to avoid creating a deterrent for inviting tourist to Montana."

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December 16, 2002

Lieutenant Governor Karl Ohs,
State Capital
PO Box 201901
Helena, Montana 59620

Dear Karl,

Thank you for your recent letter regarding the status of the Martz Administration's tax plan. Montana Farm Bureau Federation is very pleased with the progress that has been made to date on the tax plan, and eagerly awaits the upcoming legislative session.

As you know, MFBF closely follows our policy book when making decisions regarding legislative issues. We look forward to supporting the essential elements of the plan as currently written. Our policy states, "We support a reduction of Montana capital gains tax", and "We support a sales tax or discretionary tax if it is at least revenue neutral with respect to agriculture."

It is past time for Montana to step off the escalator that our tax policy has put us on and find a new vehicle better suited to propel us toward our destination of economic recovery and longer term economic stability. Reducing the capital gains and income tax burden on Montanans is the imperative first step to creating a climate conducive to economic development. Not only will this greatly stimulate the agriculture sector, Montana's number one industry, but it will provide a solid foundation from which current and future businesses in our great state can rise.

Karl, I spoke with the Governor Thursday and suggested that momentum can be gained to help move the plan forward by comparing, associating with, and explaining the current tax plan side by side with the proposed tax plan that President Bush is advocating. The more people understand the positive and reinforcing influence our economy will gain by the synergy of the combined changes, the less opposition our plan may face. This could be a hard sell during a legislative session faced with budget deficits, however, if explained properly the positive long-term effects will clearly outweigh any short-term concerns. For better or worse the two are tied together. Lets make it for the better.

I look forward to discussions with you about this and other subjects at your convenience.

Sincerely,

Jake Cummins
Executive Vice President

Cc: State Board
Kurt Alme
Ralph Peck

Montana Chamber of Commerce

Your Business Advocate

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JAN 2 7 2003
DIRECTOR'S OFFICE

November 20, 2002

Governor Judy Martz
State of Montana
PO Box 200801
Helena, Montana 59620-0801

Governor Martz,

The Executive Committee of the Montana Chamber of Commerce voted yesterday to support the basic tenets of your Administration's tax reform proposal. We believe it is one good step in changing Montana's tax system and burden.

We have long been advocates of changing the punitive nature of Montana's individual income tax. While the effective rate is actually competitive with many states, we believe it is perceived negatively by casual observers because of confusion over federal deductibility. On the other hand, we know that the capital gains tax bite is a real problem, penalizing those who generate and accumulate the wealth that this state needs so desperately.

To replace the revenue from the restructuring of individual income taxes, we support the addition of a limited sales tax. We understand that Montanans would pay this tax. At the same time, they should see a similar, if not greater, reduction in their individual income tax, still coming out ahead. We want to emphasize that we are very cautious about placing too much burden on one industry. We are aware, however, of the support of the tourism industry as a whole toward this tax reform plan. We also do not feel that it would be a disincentive for our visitors, an important and growing part of our economy.

While the Montana Chamber of Commerce supports the income tax and limited sales tax portions of your plan, we do not support local option taxing authority. We feel that it only adds complexity and burden to our members and other businesses. We will continue to support a statewide general sales tax that provides significant other tax relief.

We were privileged to have two of our Board members on the Advisory Councils preparing your plan. I enjoyed working on the Tourist Tax Advisory Council and Karen Olson Beenken of Sidney participated on the Income Tax Advisory Council. The Montana Chamber of Commerce will continue to work on overall tax reform. In the meantime, we appreciate your effort to bring this solution forward.

Sincerely,

WB

Webb Scott Brown
President/CEO

Cc: Lt. Governor Karl Ohs
DOR Director Kurt Alme
Chief Business Officer David Gibson

2030 11th Ave., Suite 21 • P.O. Box 1730 • Helena, Montana 59624 • (406) 442-2405 • Fax (406) 442-2409 • dee@montanachamber.com

Kalispell Area Chamber of Commerce

October 23, 2002

The Honorable Judy Martz
Governor of Montana
Room 204, State Capital
PO Box 200801
Helena, MT 59620-0801

RE: Endorsement of Martz Administration Tax Reform Proposal

Dear Governor Martz:

I am writing to inform you that on October 22 the Board of Directors of the Kalispell Chamber of Commerce adopted a resolution in support of your Tax Reform Proposal.

The proposal will make income and capital gains tax rates more competitive in our region. It will result in a net decrease of taxes paid by Montana residents by transferring some of the burden to non-residents. Additionally, it provides a vehicle for local governments to reduce their property tax burden and provide a resource for economic development projects. The benefits of your proposal extend to every class of Montanan.

The Kalispell Chamber is a business association whose 700 members who employ forty-five percent of the workforce in Flathead County.

Thank you for putting forward this good proposal. We look forward to working with you in the upcoming legislative session.

Sincerely,

Joseph H. Unterreiner, President
Kalispell Area Chamber of Commerce

Cc: Kurt Alme, Department of Revenue
David Gibson, Office of Economic Opportunity
Webb Brown, Montana Chamber of Commerce
Flathead State Legislative Delegation

15 Depot Park • Kalispell, MT 59901
(406) 758-2800 • Fax (406) 758-2805 • Email: chamber@digisys.net • www.kalispellchamber.com

MONTANA CPA

Montana Society of Certified Public Accountants

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DIRECTOR'S OFFICE

December 31, 2002

Kurt Alme, Director
Montana Department of Revenue
PO Box 5805
Helena, MT 59604-5805

Dear Kurt:

At our September Board meeting you asked the Montana Society of CPAs to consider endorsing the proposed tax plan developed by the Governor's Tax Advisory Councils. As promised, we asked our Legislative and State Taxation Committees to review this issue and make recommendations to the Board.

This issue was discussed at length at our December meeting and the Board determined their position to be as follows:

> *The Montana Society of CPAs Board of Directors supports the concept of lowering the top marginal tax rates to be comparable to other states for purposes of economic development. The proposal must remain revenue neutral.*

We thank you for allowing us to be a part of this process and we look forward to working with you and your staff during the legislative session.

Sincerely,

Jane Egan
Executive Director

33 S. Last Chance Gulch Suite 2B • Helena MT 59601 • Phone: 406-442-7301 • Toll Free in MT: 800-272-0307 • Fax: 406-443-2278 •

Articles and Reports on Montana Income Tax

Reference Material

State Tax Policy, "A Political Perspective," by David Brunori, page 92

Individual Income Tax Provisions in the States, Informational Paper, Wisconsin Legislative Fiscal Bureau, page 5 and page 36

Tax Rates and Tax Burdens – In the District of Columbia – A Nationwide Comparison, Table 1, pages 8 - 12, Table 15, page 40

The Book of the States 2000-01 Edition, Volume 33, The Council of State Governments, page 295

Guide to Taxes, Administered by the Montana Department of Revenue, January 2001, page 10

Biennial Report of the Montana Department of Revenue, July 1, 1998 to June 30, 2000, page 13

Magazine Articles

Bloomberg Personal Finance Tax Survey, May 2002, "Debt and Taxes"

Comments on Bloomberg's Relative Rankings of Montana Tax Burden

Merrill Lynch Advisor, "Your Guide to Safer Investing"

On-Line Magazine Articles

Business Week-online, www.businessweek.com, July 27, 2000, "Don't Let Taxes Tarnish Your Golden Years." "Your Retirement" column by Ellen Hoffman; "In other states, the top rate on your income ranges from a flat 3% in Illinois to a high of 11% in Montana,"

SmartMoney, www.smartmoney.com, Ask SmartMoney, May 12, 2000, "The State of Taxes" asks, "Which states have no income tax?"

U.S. News, www.bankrate.com, Montana State Taxes,

U.S. News, www.bankrate.com, State Taxes: Massachusetts-New Jersey,

RightNOW Technologie

EXHIBIT 7
DATE 4-8-03
SB 407

April 7, 2003

Representative Dan Fuchs
MT State Legislature
Helena, MT

Dear Rep. Fuchs,

I am writing to endorse Senate Bill 407. As the largest commercial employer in Bozeman, the marginal income and capital gains rates are the largest obstacles to us in recruiting and retaining key employees. RightNow was founded in 1998 and now employees over 250 people. Our average wage is $54,000 per year and we have brought over $117,000,000 into the state since inception. Our 2003 Montana payroll will be approximately $10,800,000.

If you feel this sort of economic contribution is worthwhile, I whole-heartedly encourage you to pass Senate Bill 407 as it will help attract and retain firms like ours in the great State of Montana.

Sincerely,

Greg Gianforte
CEO and Founder

Cc: Kurt Alme

RightNow Technologies, Inc.
40 Enterprise Blvd.
PO Box 9300
Bozeman, Montana 59718
phone 1-406-522-4200

North American Sales–West
toll free 1-888-824-4856
fax 1-406-522-4208

North American Sales–East
toll free 1-877-522-2525

Japan–International Sales
phone +81-3-3233-2130
fax +81-3-3233-2150

UK–International Sales
phone +44 (0) 1753 89 4900
fax +44 (0) 1753 89 4901

Australia/Pacific Rim–International Sales
phone +61 2 9057 13 66
fax +61 2 9057 13 53

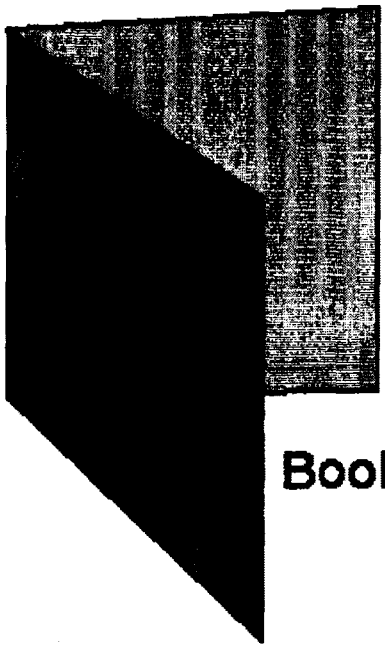

Exhibit: 6

This exhibit is a pamphlet /booklet
which cannot be scanned.
If you wish to view this exhibit,
it is on file at the
Montana Historical Society
225 North Roberts Street
Helena, MT 59601
(406) 444-4774

EXHIBIT 6
DATE 4-8-03
SB 407

Montana Individual Income Tax Perceptions and Problems

Part One: Examples of published articles that provide incomplete information on Montana's income tax rates.

Part Two: Examples of hindrances to economic development caused by the income tax structure.

Compiled by the Department of Revenue
2003

RightNOW Technologies

EXHIBIT 7
DATE 4-8-03
SB 407

April 7, 2003

Representative Dan Fuchs
MT State Legislature
Helena, MT

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fax +81-3-3233-2150

UK–International Sales
phone +44 (0) 1753 89 4000
fax +44 (0) 1753 89 4901

Australia/Pacific Rim–International Sales
phone +61 2 9657 13 66
fax +61 2 9657 13 52

EXHIBIT 8
DATE 4-8-03
SB 407

The Montana Fair Share Network

Working together for a better Montana

Fair Share Network urges the House Taxation Committee to amend SB 332, a Graduated Gross Receipts Tax on Retail Sales Above $20 Million, into SB 407, which will add $60 million per biennium to the revenue package. The additional revenue can be used to more adequately offset program cuts in Health and Human Services and Education.

Large retail businesses are part of Montana communities and need to pay their fair share for the services they receive, including an educated workforce, infrastructure, law enforcement and other services and the environmental and cultural resources that make employees interested in living here.

Many large multi-state corporations are able to reduce their corporate tax and large discount, high volume retail establishments do not pay significant amounts of business equipment tax, which is one of the main ways business pays its fair share for public services. These corporations do not invest their profits in Montana and often do not maintain significant deposits in local banks. A graduated gross receipts tax, with moderate rates and exemptions for the first $20 million in sales, would allow multi-state "big box" stores to pay their fair share and would provide significant revenue at a time of revenue deficit and deep cuts in health and human services and education.

If the business decision is made by management to pass the gross receipts tax on in prices to customers, rather than lowering CEO salaries or profit margins, local businesses will be more competitive in the local market.

Fair Share Revenue Evaluation Criteria Analysis of Establishing a Graduated Gross Receipts Tax on Retail Sales Above $20 Million

1. Is the revenue proposal fiscally responsible? Does it achieve a short-term benefit at the expense of a negative long-term impact? Does it adversely affect the state's fiscal position in 5-10 years? **Yes-a graduated gross receipts tax on large volume retail sales is fiscally responsible. It generates a new and significant revenue stream in a time of deficit. The rates of 1% on sales above $20 million, 1.5% above $30 million and 2% above $40 million are moderate levels. Most Montana owned businesses are exempt from this tax, and those with over $20 million in sales have the resources to pay. This tax does not negatively impact other revenue sources and the businesses involved are currently expanding in Montana. There is no reason to project that revenue in these businesses will decline over the next 5 –10 years.**

2. Does the revenue proposal help ensure that all of us are paying our fair share in order to create a healthy economy, state and community? Does it address the fair share goal that all community members, including businesses and individual citizens, are paying for programs and services that build community health, welfare and livability? **Yes, currently large multi- state, high volume retail stores are not paying significant business equipment taxes nor investing their profits in Montana. This graduated gross receipts tax lets them pay their fair share for Montana public services.**

3. Does the revenue proposal lessen inequalities? Does it avoid exacerbating income inequalities and burdening those with less resources or influence? For example, raising co-pays and user fees for low-income programs burdens the working poor instead of spreading the cost of providing essential services more broadly. Exempting small businesses, or assessing taxes on business receipts or equipment above a certain baseline, ensures that small local ventures can maintain their competitiveness. **Yes, SB 332 excludes the first $20 million in retail sales and assesses graduated rates, 1% on $20 million to $30 million, 1.5% on $30 to $40 million and 2% on sales above $40 million. This type of tax break helps small local ventures be competitive.**

   Those with fewer resources would be impacted if the tax is passed on in prices to customers. Other decisions can be made by management to stay competitive including cuts in CEO salaries and profit margins. If sub market pricing is abandoned by these establishments, smaller local businesses, which do invest in the Montana economy and often offer better wages and benefits, can become competitive again. On the balance, this type of tax can go into a Fair Share package that targets the revenue raised to health and human service programs and education that benefit those with fewer resources.

4. Does the revenue proposal simply shift the tax burden from one group to another? Does it give breaks to one group and increase costs to another group? For example, shifting the costs of education from the state general fund to local property taxes shifted the burden to local residential and commercial property owners. **No, a graduated gross receipts tax on retail sales above $20 million is a new tax on large businesses that do not pay significant business equipment tax and is an important way to not shift the tax burden for public services from businesses to individual community members. Vehicles, farm implements, coal, oil, gas and electricity are not included in this tax.**

5. Does the revenue proposal help ensure a balanced revenue approach so the state doesn't over rely on growth in one part of the economy but draws revenue from the range of economic activity within the state? For example, cutting other taxes while relying on capital gains taxes during the market climb in the 90's caused a steep decline in state revenues when the stock market plunged. **Yes, a graduated gross receipts tax on retail sales above $20 million which taps an expanding sector of the economy that is not now paying significant business equipment tax promotes a more balanced approach, providing exemptions and graduated rates encourages smaller local businesses.**

-Judy Smith, WORD/ Fair Share Network, 543-3550, 4/8/03

EXHIBIT 9
DATE 4-8-03
SB 407

AARP Montana

April 8, 2003

Members of the House Taxation Committee
Testimony in Support of SB407

Mr. Chairman and members of the Committee, for the record I am Pat Callbeck Harper, Associate State Director for AARP Montana. AARP is a nonpartisan, nonprofit organization dedicated to bettering the lives of persons 50 and older, with 136,000 members in Montana.

First a few facts about our members' concerns and opinions... In our fall membership survey, our members told us they:

- Oppose a general sales tax by 55%
- Strongly support full funding of Medicaid services - this is a top legislative concern – because they know that if we fully fund health and human services we can capture an estimated $75-80 million more in Medicaid dollars
- Support property tax reform
- Support by a strong majority taxes on things like alcohol, gambling and rental cars because they know these taxes are less regressive because we can avoid these items
- Support up to $1.50 in cigarette tax increase if the revenue goes to care for health care needs of Montanans, especially our most needy

I share this information with you because you need to know with confidence that a great number of your constituents support most of the elements of this bill. We know our Governor has indicated she may not, but a good number of the people of Montana do.

We support SB407 as one of the primary revenue bills of this session. We testified before you in mid-January supporting a cigarette tax increase for the uninsured and medically needy. We support the cigarette tax increase in this bill. Our members know that regressivity of taxes can be mitigated by dedicating the revenue of selective taxes to address the needs of our low income and elderly citizens, especially in healthcare crises.

We would like to recommend that you amend this good bill to include the tax on soda pop. Over a hundred of our members told me over transmittal in town forums that they would gladly pay that simple nickel a container "contribution" if it would help their needy elderly neighbors. Just as our youth group at our church said they would gladly pay that nickel if it meant their grandparents could continue to have their personal care assistant to help them stay in their home... or help the elderly neighbor they've adopted as their grandfather down the block who gets a meals on wheels at the senior center.

30 West 14th Street, Suite 301 | Great Northern Addition | Helena, MT 59601 | 406-441-2277 | 406-441-2230 fax | 1-877-434-7598 TTY
James G. Parkel, President | William D. Novelli, Executive Director and CEO | www.aarp.org

We think it is the young adults who will be hit by this tax, but I saw a USA Today graph months ago that showed that it may in fact be the Baby Boomer generation that drinks more soda than other generations. Again, the regressivity of this tax is mitigated by the fact we can avoid it if we don't want to pay it, and by the fact that it should be dedicated to health and human services, especially Medicaid programs currently cut in our budget.

Do we really think that the Montanans we know, your constituents, will complain very long about paying an extra nickel on their pop when they know how cruel and possibly life-threatening the alternative was for you in this budget? I really think much more of Montanans, and you should have confidence in their caring and concern.

Please consider amending this bill to include the pop tax to raise an additional $25 million for the biennium.

We do have a very hard time supporting the portion of SB407 that gives so much income tax break to the wealthiest of Montanans (50% of the estimated $36 million in tax breaks is going to the wealthiest 17,000 Montanans). AARP does indeed have one third of its members who are among these wealthy Montanans. But in the face of the draconian cuts, they realistically know that more money in their pockets is not going to translate into more meals on wheels or personal care baths in the homes of their elderly low income neighbors.

Thank you for the good work you have done this session, and for the courage we know you are going to show as you make this most important decisions of this session. Remember you have the support of many Montanans that might surprise you.

Thank you for the opportunity to testify this morning.

EXHIBIT 10
DATE 4-8-03
SB 407

Mr. Chairman and members of the committee. My name is Ernie Dutton. I reside in Billings. I am testifying today on behalf of the Montana Association of Realtors.

We support SB 407 as originally proposed by the Montana Department of Revenue and introduced by Senator Depratu. SB 407 is a sophisticated 21st Century laser precision tax plan. It collects a larger percentage of its total revenue from visitors to Montana, without causing some of the collateral damage that would result from other comprehensive tax reform plans. It is not a watered down version of comprehensive tax reform, or an interim step to that end. SB 407 is the answer, it is the key to unlocking a better future for Montana.

Other comprehensive tax proposals would levy a broad based sales tax that would raise $50 million from visitors to Montana and would replace approximately $400 million of property and income taxes paid by Montanans. However, estimates have Montanans paying more than an additional $50 million in Federal Income taxes. It makes little sense to pay out more than we expect to gain. Furthermore, it will likely to be easier to convince Montana voters to endorse a limited sales tax, than it would be to get them to approve a broad-based sales tax.

Many have envisioned that a comprehensive tax plan would reduce property taxes. The Montana Association of Realtors is very concerned about property taxes. Analysis reveals that Montana property taxes are near the national average, and Montana incomes are among the lowest in the country. The result is that Montanans pay a higher than average percentage of their incomes in property taxes. The solution is better jobs and higher incomes.

Key findings of a 1995 study prepared for the Joint Economic Committee of the Congress are that, "Relatively low-tax states grew nearly one-third faster than high tax states....Income taxes

have a particularly adverse impact on income growth....Flat-rate income taxes are significantly more favorable to economic growth than progressive taxes. Personal income in flat-rate income tax states grew 25 percent faster than did personal income in states with a progressive rate structure." When the study compared states similar to one another, such as Montana to Idaho, or North Dakota to South Dakota, it attributed about one-fourth of the difference in growth rates to tax policy.

SB 407 significantly moves Montana in the right direction, by reducing the tax burden for Montana residents, and lowering, in effect flattening, our income tax rates.

Some argue that Montana's effective income tax rates are much lower than perceived. But this argument is meaningless. Perception is often more important than reality. People act upon what they believe to be true.

Today, many people go to the internet for information. All of the internet sites surveyed listed Montana's 11% income tax rate as one of the highest marginal income tax rates in the country. Most of the sites made **no** mention of Federal Deductibility, and none of the sites explained what Federal deductibility meant. The vast majority of those using the internet as a source of information will have the perception that high income Montanans will pay 11% State income tax on all income over $67,900, period. I have provided you with copies of the printouts from some of the information obtained from the internet.

But the problem is not all perception, because our income taxes are indeed quite high. A Billings tax attorney told me that it would be malpractice for him not to advise his high-income clients of the tax savings they would realize by changing their residency to Wyoming or Nevada.

Unfortunately, many high income Montanans have taken this advise, which has denied Montana the benefit of their income taxes, and their financial, as well as human capital. The irony is that if by lowering Montana's high marginal income tax rate more high-income Montanans remain in Montana and pay taxes, we may see actual income taxes collected become more progressive,

The earlier cited study prepared for the Joint Economic Committee of Congress concludes, "that a state with high progressive income taxes can improve its economic performance by lowering the overall tax burden and moving to a flat rate structure." SB 407 does both, it lowers Montana's overall tax burden and flattens our income tax structure.

SB 407 will greatly enhance Montana's future by;

1) Making Montana's tax structure more competitive;
2) Increasing total tax collections, improving schools, human services, etc.;
3) Making income tax collections more progressive;
4) Shifting some of the tax burden out-of-state;
5) Increasing and retaining financial capital;
6) Retaining important human capital. People who know how to create jobs and business opportunities for themselves and others;
7) Collecting more taxes from income tax evaders engaged in cash businesses;
8) Improving our internet image;
9) Creating a more balanced tax structure, smoothing out tax collections;
10) Preserving most of the Federal tax write-offs for Montana taxpayers.

SB 407 is much more than just a way to balance the biennium's budget. SB 407, as originally proposed, is a very well conceived long-term solution, which is also very achievable. It is the

key to a better future for Montana. SB 407, if passed, will help reverse decades of decline, which has seen Montana recede to the bottom of the US economy. With SB 407 removing a major obstacle to economic growth, Montana's significant assets, particularly its people and lifestyle will begin attracting high tech businesses to the State. The result will be better jobs, higher incomes, improved government funding and new opportunities for all Montanans. Your bi-partisan support of SB 407 will begin a new era of optimism and economic growth in Montana.

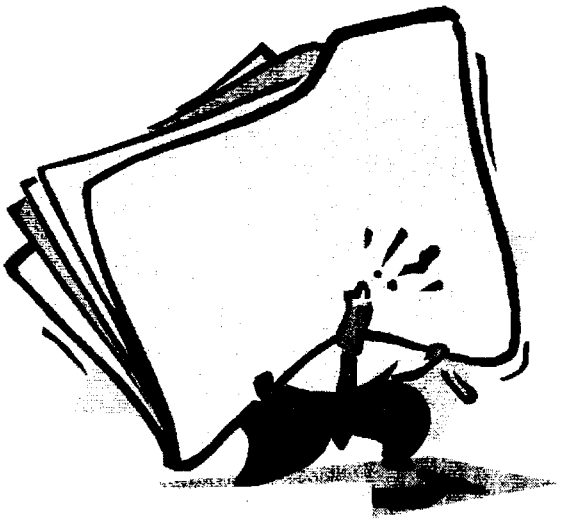


Exhibit: 11

This exhibit is a collection of several different documents, which exceed the amount of pages that can be scanned.

If you wish to view this exhibit, It is on file at the Montana Historical Society 225 North Roberts Street Helena, MT 59601 (406) 444-4774

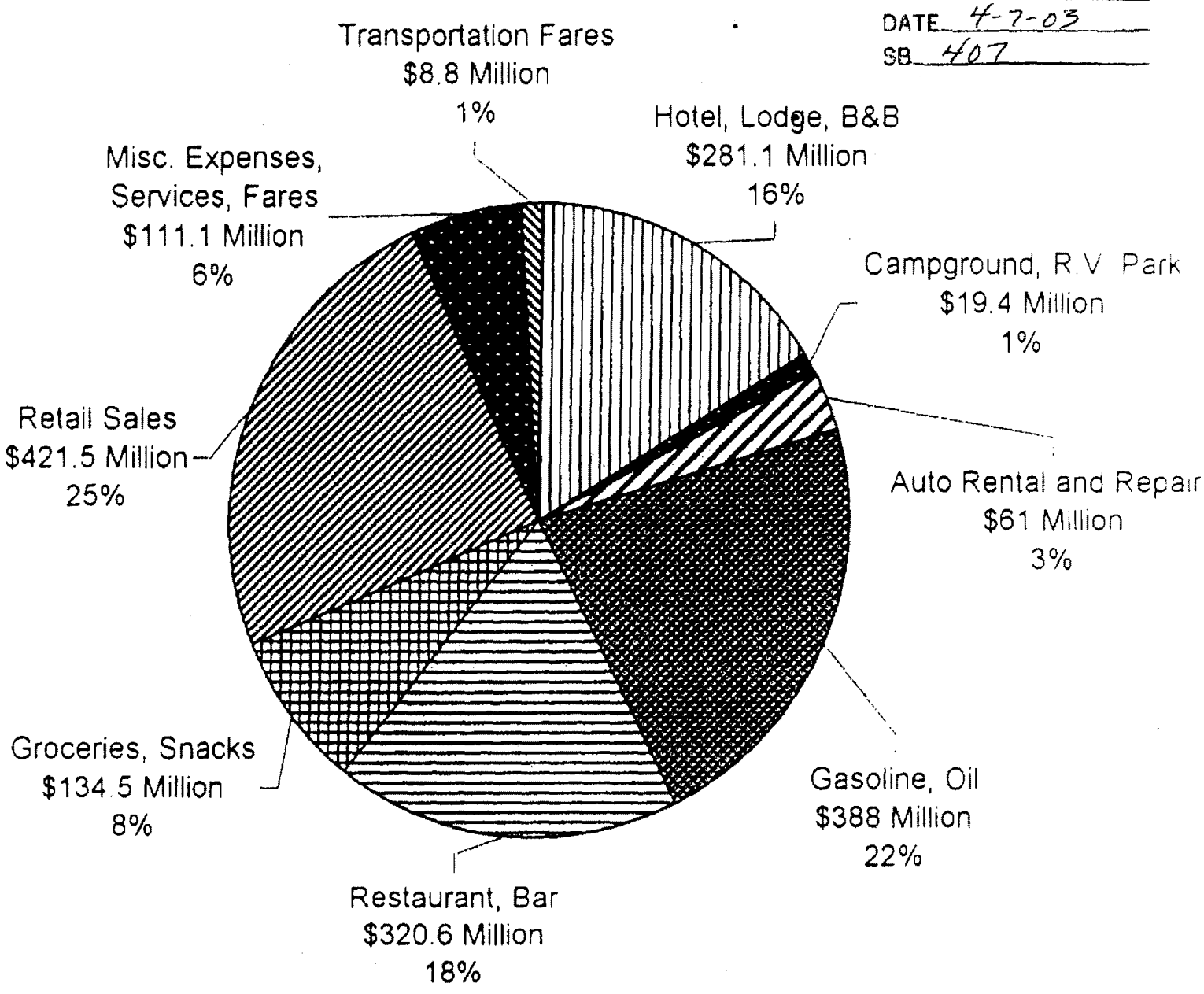
Exhibit: 12

This exhibit is a collection of several different documents, which exceed the amount of pages that can be scanned.

If you wish to view this exhibit, It is on file at the Montana Historical Society 225 North Roberts Street Helena, MT 59601 (406) 444-4774

Montana's 9.5 million visitors spend over $1.74 billion each year.

EXHIBIT 13
DATE 4-7-03
SB 407



57% Tourist sales - Food/Shopping/Services
20% Tourist Sales - Lodging & Car Rental

Lodging is already collecting 4% & Car Rental pays for Lic Plates @ 3 to 5 times other states

EXHIBIT 14
DATE 4-8-03
SB 407

Amendments to Senate Bill No. 407
3rd Reading Copy (Internet PDF)

Presented by Mark Staples

For House Taxation Committee Hearing 4/8/2003

4/7/2003 9:59 PM

1. Page 40, Title, line 20.
Following: ``YEAR.''
Insert: ``that exceeded the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year.''

EXHIBIT 15
DATE 4-8-03
SB 407

Montana Libertarian Party

P.O. Box 4803 Missoula MT 59806
1-406-721-9020 * Mfellows@USA.Net

April 8, 2003
Re: SB 407 Sales Taxes
To: (H) Taxation Committee

Dear Chair and Members of the Committee,

For the record my name is Mike Fellows and I'm Chair of the Montana Libertarian Party. I do not support SB 407. This three-legged stool is looking pretty lopsided. Montanans may accept a one legged stool with only a sales tax, if we eliminated both income and property taxes. This legislature will not go that route. We know that the legislature is shifting the tax burden and that Montana Citizens will pay a major portion of any sales tax enacted.

I just hate taxes. The accommodations tax was set up as a limited use tax for getting people to Montana. Why must we always pick on the cigarette smokers? Does the state want people to quit or are they encouraging smoking to bring in new revenue. Will I have to start smoking and do my patriotic duty to provide revenue to the general fund? McDonalds Corporation recently saw its stock go up after several downturns based on the fact that it was cutting the budget. If we are to attain economic prosperity then we must pursue fiscal discipline and spending restraint. We also should look at reducing taxes, and prudently reducing debt levels.

I would urge a no vote on SB 407. Thank you for your time.

Mike Fellows
MTLP

Montana House of Representatives
Visitors Register

TAXATION COMMITTEE **Date** 4/8/03

Bill No. SB 407 **Sponsor(s)** Departm

PLEASE PRINT **PLEASE PRINT** **PLEASE PRINT**

Name and Address	Representing	Support	Oppose	Inf.
Bob Gilbert	MT Petroleum Mktg - C Stores		X	
MIKE FARLOR	Pennington's		X	
ROBERT PAVLOVICH	Ao. ATLANTIC TRAD CO.		X	
RICK REISIG	Hamilton Misfeldt	X		
DAVE JOHNSON	MT SOC. OF CPAs	X		
JOHN SURRICK	SHEEHAN MAJESTIC		X	
Aimee Grmoljez	PM USA		X	
Robert Wade	Entapise Mf Assn		X	
Pat Callbeck Harper	HARP. MT	X		
Riley Johnson	NFIB		X	
Steve Yeakel	MCMCH, MHRDC, MCCVI	X		
Cris Volinkaty	DTD Kids & FAMILIES	✓		
Jim Tuss	Gt. Falls Hotel/motel Assn		X	
WEBB BROWN	MONTANA CHAMBER	X		
Cathy Burrell	Helena Chamber	X		
TIM BARTZ	ANDERSON ZURMUEHL	X		
Ernie Dutton	Montana Assn. of Realtors	X		
Mary Sullivan Wolf	MT Taxpayers Assoc			
Mike Fellows	MTCP		X	
George S. Olsen	Galusha Higgins Galusha	X		

Please leave prepared testimony with Secretary. Witness Statement forms are available if you care to submit written testimony.

Amy Sullivan	MT Tourism Coal.	X	
Janie McCall	ABC, MCI,	X	JAMES ANDERSON R.J. REYNOLDS TOB CO. OPPOSES
Bob Stephens	MAIAS-SA, MAR		

323

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN DANIEL FUCHS**, on April 9, 2003 at 7:01 P.M., in Room 152 Capitol.

ROLL CALL

Members Present:

Rep. Daniel Fuchs, Chairman (R)
Rep. Ronald Devlin, Vice Chairman (R)
Rep. Ron Erickson, Vice Chairman (D)
Rep. Joan Andersen (R)
Rep. Joe Balyeat (R)
Rep. Gary Branae (D)
Rep. Eileen J. Carney (D)
Rep. Jill Cohenour (D)
Rep. Larry Cyr (D)
Rep. Kim Gillan (D)
Rep. Verdell Jackson (R)
Rep. Bob Lake (R)
Rep. Carol Lambert (R)
Rep. Jesse Laslovich (D)
Rep. Jim Peterson (R)
Rep. John (Jack) W. Ross (R)
Rep. Karl Waitschies (R)

Members Excused: Rep. Gary Forrester (D)

Members Absent: None.

Staff Present: Kathleen Ely, Committee Secretary
Jeff Martin, Legislative Branch

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society. THE TIME STAMP REPRESENTS ELAPSED TIME.

Committee Business Summary:
Hearing & Date Posted: None.
Executive Action: HB 470, TABLED
SB 407, BE CONCURRED IN, 10-8

EXECUTIVE ACTION ON SB 470

Motion/Vote: **REP. ERICKSON moved that HB 470 BE TABLED. Motion carried unanimously 18-0** by voice vote with **REP. FORRESTER voting aye** by verbal proxy of **REP. ERICKSON.**

EXECUTIVE ACTION ON SB 407

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN.**

Motion/Vote: **REP. DEVLIN moved that SB 407 BE AMENDED. Motion carried unanimously 18-0** by voice vote with **REP. FORRESTER voting aye** by verbal proxy of **REP. ERICKSON.**
EXHIBIT(tah76b01)

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN AS AMENDED.**

Motion: **REP. FUCHS moved that SB 407 BE AMENDED.**
EXHIBIT(tah76b02)

Motion/Vote: **REP. LASLOVICH moved TO SEGREGATE THE SUNSET PROVISIONS OF THE AMENDMENT. Motion carried unanimously 18-0** by voice vote with **REP. FORRESTER voting aye** by verbal proxy of **REP. ERICKSON.**

Vote: **Motion on the non-segregated portions of the amendment carried unanimously 18-0** by voice vote with **REP. FORRESTER voting aye** by verbal proxy of **REP. ERICKSON.**

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN AS AMENDED.**

Motion: **REP. FUCHS moved that SB 407 BE AMENDED.** [The sunset provisions of the amendment.]

Vote: **Motion on the segregated portions of the amendment failed unanimously 18-0** by voice vote with **REP. FORRESTER voting aye** by verbal proxy of **REP. ERICKSON.**

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN AS AMENDED.**

Motion/Vote: **REP. BALYEAT moved that SB 407 BE AMENDED. Motion carried 10-8 with REPS. BRANAE, CARNEY, COHENOUR, CYR, ERICKSON, FORRESTER, GILLAN, and LASLOVICH voting no** by roll call vote with **REP. FORRESTER voting no** by verbal proxy of **REP. ERICKSON.**
EXHIBIT(tah76b03)
EXHIBIT(tah76b04)

Motion/Vote: **REP. LAMBERT moved that SB 407 BE TABLED. Motion failed 8-10 with REPS. CARNEY, COHENOUR, CYR, FUCHS, GILLAN, LAMBERT, LASLOVICH, and PETERSON voting aye** with **REP. FORRESTER voting no** by verbal proxy of **REP. ERICKSON.**

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN AS AMENDED.**

Discussion:
1:58:00

Motion: **REP. DEVLIN moved that SB 407 BE CONCURRED IN AS AMENDED. Motion carried 10-8 with REPS. BRANAE, CARNEY, COHENOUR, CYR, ERICKSON, FORRESTER, GILLAN, and LASLOVICH voting no** by roll call vote with **REP. FORRESTER voting no** by verbal proxy of **REP. ERICKSON.**

HOUSE OF REPRESENTATIVES
Roll Call
TAXATION COMMITTEE

DATE 4-9-03 Evening Meeting

NAME	PRESENT	ABSENT	EXCUSED
REP. DAN FUCHS, CHAIRMAN	✓		
REP. RON DEVLIN, VICE CHAIR MAJORITY	✓		
REP. RON ERICKSON, VICE CHAIR MINORITY	✓		
REP. JOAN ANDERSEN	✓		
REP. JOE BALYEAT	✓		
REP. GARY BRANAE	✓		
REP. EILEEN CARNEY	✓		
REP. JILL COHENOUR	✓		
REP. LARRY CYR	✓		
REP. GARY FORRESTER			✓
REP. KIM GILLAN	✓		
REP. VERDELL JACKSON	✓		
REP. BOB LAKE	✓		
REP. CAROL LAMBERT	✓		
REP. JESSE LASLOVICH	✓		
REP. JIM PETERSON	✓		
REP. JACK ROSS	✓		
REP. KARL WAITSCHIES	✓		

EXHIBIT 1
DATE 4-9-03
SB 407

Amendments to Senate Bill No. 407
3rd Reading Copy

For the House Taxation Committee

Prepared by Greg Petesch
April 9, 2003 (10:53am)

1. Page 1, line 26.
Strike: "40"
Insert: "39"

2. Page 8, line 29.
Strike: "40"
Insert: "39"

3. Page 9, line 22.
Strike: "40"
Insert: "39"

4. Page 10, line 4.
Strike: "40"
Insert: "39"

5. Page 10, line 7.
Strike: "40"
Insert: "39"

6. Page 10, line 14.
Strike: "40"
Insert: "39"

7. Page 10, line 16.
Strike: "40"
Insert: "39"

8. Page 10, line 18.
Strike: "40"
Insert: "39"

9. Page 13, line 17.
Strike: "40"
Insert: "39"

10. Page 13, line 19.

32

Strike: "40"
Insert: "39"

11. Page 13, line 25.
Strike: "40"
Insert: "39"

12. Page 14, line 2.
Strike: "40"
Insert: "39"

13. Page 14, line 10.
Strike: "40"
Insert: "39"

14. Page 14, line 20.
Strike: "40"
Insert: "39"

15. Page 14, line 25.
Strike: "40"
Insert: "39"
Strike: "28"
Insert: "27"

16. Page 14, line 26.
Strike: "40"
Insert: "39"

17. Page 15, line 4.
Strike: "40"
Insert: "39"

18. Page 15, line 26.
Strike: "40"
Insert: "39"

19. Page 15, line 27.
Strike: "28"
Insert: "27"

20. Page 15, line 28.
Strike: "40"
Insert: "39"

21. Page 16, line 6.
Strike: "40"
Insert: "39"

22. Page 16, lines 9 through 16.
Strike: section 24 in its entirety
Renumber: subsequent sections

23. Page 16, line 19.
Strike: "20th"
Insert: "last"

24. Page 16, line 20.
Strike: "40"
Insert: "39"

25. Page 16, line 23.
Strike: "40"
Insert: "39"

26. Page 17, line 6.
Strike: "40"
Insert: "39"

27. Page 17, line 7.
Strike: "40"
Insert: "39"

28. Page 17, line 9.
Strike: "40"
Insert: "39"

29. Page 17, lines 23 and 24.
Strike: subsection (6) in its entirety

30. Page 17, line 27.
Strike: "on an accrual basis"
Strike: "25"
Insert: "24"

31. Page 18, line 13.
Strike: "25"

Insert: "24"

32. Page 19, line 4.
Strike: "40"
Insert: "39"

33. Page 19, line 8.
Strike: "25"
Insert: "24"

34. Page 19, line 27.
Strike: "40"
Insert: "39"

35. Page 19, line 28.
Strike: "40"
Insert: "39"

36. Page 20, line 13.
Strike: "40"
Insert: "39"

37. Page 20, line 22.
Strike: "40"
Insert: "39"

38. Page 21, line 5.
Strike: "40"
Insert: "39"

39. Page 21, line 7.
Strike: "40"
Insert: "39"

40. Page 21, line 9.
Strike: "40"
Insert: "39"

41. Page 21, line 13.
Following: line 13
Strike: "40"
Insert: "39"
Following: "~~41~~"
Strike: "40"

32

Insert: "39"

42. Page 21, line 19.
Strike: "40"
Insert: "39"

43. Page 21, line 25.
Strike: "40"
Insert: "39"

44. Page 22, line 15.
Strike: "40"
Insert: "39"

45. Page 22, line 21.
Strike: "40"
Insert: "39"

46. Page 22, line 22.
Strike: "40"
Insert: "39"

47. Page 22, line 27.
Strike: "40"
Insert: "39"

48. Page 23, line 7.
Strike: "40"
Insert: "39"

49. Page 23, line 11.
Strike: "40"
Insert: "39"

50. Page 23, line 17.
Strike: "40"
Insert: "39"

51. Page 40, line 27.
Strike: "40"
Insert: "39"

52. Page 40, line 28.

Strike: "40"
Insert: "39"

53. Page 40, line 29.
Strike: "41"
Insert: "40"

54. Page 40, line 30.
Strike: "41"
Insert: "40"

55. Page 41, line 3.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

56. Page 41, line 14.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

57. Page 41, line 24.
Strike: "41"
Insert: "40"
Strike: "43"
Insert: "42"
Strike: "46"
Insert: "45"

- END -

EXHIBIT 2
DATE 4-9-03
SB 407

Amendments to Senate Bill No. 407
3rd Reading Copy

Requested by Representative Daniel Fuchs

For the House Taxation Committee

Prepared by Jeff Martin
April 9, 2003 (3:13pm)

1. Title, page 1, line 13.
Strike: "DEPOSITING" through "FUND"
Insert: "REVISING THE DISTRIBUTION OF THE CIGARETTE TAX"
Following: "FUND;"
Insert: "TEMPORARILY"

2. Title, page 1, line 14.
Following: "DISCOUNTS;"
Insert: "TEMPORARILY"

3. Title, page 1, line 15.
Following: "A"
Insert: "TEMPORARY"
Following: "SNUFF;"
Insert: "TEMPORARILY"

4. Title, page 1, line 19.
Strike: "AND"
Insert: ","
Following: "~~TERMINATION DATE~~"
Insert: "AND A TERMINATION DATE"

5. Page 38, line 19.
Following: "**taxes.**"
Insert: "(1)"

6. Page 38, line 21.
Strike: "(1)"
Insert: "(a)"

7. Page 38, line 22.
Strike: "3.1%"
Insert: "8.3% or $2 million, whichever is greater,"

8. Page 38, line 24 through line 25.
Strike: subsection (2) in its entirety

9. Page 38, line 26.
Strike: "(3)"
Insert: "(b)"

10. Page 38, line 27.
Following: "~~AND~~"
Insert: "; and"
(c) the remainder to the state general fund

11. Page 38.
Following: line 29
Insert: "(2) If money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds $2 million at the end of the fiscal year, the excess must be transferred to the state general fund.
Insert: "**Section 52.** Section 16-11-119, MCA, is amended to read:
"**16-11-119. Disposition of taxes.** (1) Cigarette taxes collected under the provisions of 16-11-111 must, in accordance with the provisions of 15-1-501, be ~~allocated~~ deposited as follows:
~~(1)~~(a) ~~The amount of 11.11% of the cigarette tax collected on each package of cigarettes must be deposited~~ 31.5% or $2 million, whichever is greater, in the state special revenue fund to the credit of the department of public health and human services for the operation and maintenance of state veterans' nursing homes~~.~~;
~~(2) The amount of 73.04% must, in accordance with the provisions of 15-1-501, be deposited in the state general fund.~~
~~(3)~~(b) ~~The amount of 15.85% must, in accordance with the provisions of 15-1-501, be deposited~~ 15.85% in the long-range building program account provided for in 17-7-205; and
(c) the remainder in the state general fund.
(2) If money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds $2 million at the end of the fiscal year, the excess must be transferred to the state general fund."
{Internal References to 16-11-119:
10-2-417 10-2-417 17-7-205 }
Renumber: subsequent sections

12. Page 40, line 20.
Following: "~~YEAR~~"
Insert: ", that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year"

13. Page 41, line 12.

Strike: "subsection (2)"
Insert: "subsections (2) and (3)"

14. Page 41.
Following: line 14
Insert: "(3) [Section 52] is effective July 1, 2005."

15. Page 41, line 18.
Strike: subsection (a) in its entirety
Renumber: subsequent subsections

16. Page 41.
Following: line 24
Insert: "(3) [Sections 49 through 51 and 53 through 55] apply to cigarettes and tobacco products sold after May 1, 2003.
(4) [Section 52] applies to cigarettes sold after June 30, 2005."

17. Page 41.
Following: line 26
Insert: "NEW SECTION. **Section 64. {standard} Termination.** [Sections 49 through 51 and 53 through 55] terminate June 30, 2005. "

- END -

EXHIBIT 3
DATE 4-9-03
SB 407

Amendments to Senate Bill No. 407
3rd Reading Copy

Requested by Representative Joe Balyeat

For the House Taxation Committee

Prepared by Jeff Martin
April 9, 2003 (5:23pm)

1. Page 7, line 23.
Strike: "5%"
Insert: "3%"

2. Page 7, line 24.
Strike: "9%"
Insert: "4%"

3. Page 8, line 9.
Strike: "5%"
Insert: "3%"

4. Page 8, line 10.
Strike: "9%"
Insert: "4%"

- END -

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SB407 - Delay Income Tax Reduction 1 Year; Tax Cigarettes @ 70 Cents per Pack; Increase Accommodations Tax 3% and Provide 4% Tax on Rental Cars (Balyeat Option)

	Nonresident Percentage	Applicability Date	Fiscal 2003	Fiscal 2004	Fiscal 2005	Total FY2003-2005
Revenue Enhancement						
Accommodations Tax - 3% increase	77%	6/1/2003	$747,000	$9,515,000	$9,812,000	$20,074,000
Rental Car Tax - 4%	70%	7/1/2003	-	2,295,000	2,366,000	4,661,000
Other Tobacco Products Tax (12.5% to 25%; Moist Snuff @ 35 cents per oz.)		5/1/2003	136,762	820,574	833,532	1,790,868
Cigarette Tax at 52 cents increase ($0.18 + $0.52 = $0.70)		5/1/2003	4,674,716	28,048,294	27,040,371	59,763,381
TOTAL INCREASED TAX REVENUE			$5,558,478	$40,678,868	$40,051,903	$86,289,249
Revenue Reductions						
Income Tax Reform			0	$ -	$ (15,752,000)	$ (15,752,000)
DOR System Cost			0	$ (1,213,538)	$ (71,956)	$ (1,285,494)
DOR Tax Administration Cost			0	$ (14,483)	$ (8,235)	$ (22,718)
TOTAL REVENUE REDUCTIONS			0	$ (1,228,021)	$ (15,832,191)	$ (17,060,212)
NET REVENUE IMPACT			**$5,558,478**	**$39,450,847**	**$24,219,712**	**$69,229,037**

EXHIBIT 4
DATE 4-9-03
SB 407

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HOUSE OF REPRESENTATIVES
Roll Call Vote
TAXATION COMMITTEE

DATE 4-9-03 BILL NO SB 407 MOTION NO. 1

MOTION: BALYEAT: AMEND SB040708.aki PASSED 10-8

NAME	AYE	NO	ABSENTEE
REP. RON DEVLIN, VICE CHAIR MAJORITY	✓		
REP. RON ERICKSON, VICE CHAIR, MINORITY		✓	
REP. GARY BRANAE		✓	
REP. JOAN ANDERSEN	✓		
REP. JACK ROSS	✓		
REP. GARY FORRESTER		✓	
REP. CAROL LAMBERT	✓		
REP. JOE BALYEAT	✓		
REP. JESSE LASLOVICH		✓	
REP. VERDELL JACKSON	✓		
REP. EILEEN CARNEY		✓	
REP. KARL WAITSCHIES	✓		
REP. LARRY CYR		✓	
REP. JIM PETERSON	✓		
REP. JILL COHENOUR		✓	
REP. BOB LAKE	✓		
REP. KIM GILLAN		✓	
REP. DAN FUCHS, CHAIRMAN	✓		
	10	8	

S:/TaxRollCallVote2003

HOUSE OF REPRESENTATIVES
Roll Call Vote
TAXATION COMMITTEE

DATE 4-9-03 BILL NO SB 407 MOTION NO. 2
MOTION: LAMBERT: TO TABLE FAILED 8-10

NAME	AYE	NO	ABSENTEE
REP. RON DEVLIN, VICE CHAIR MAJORITY		✓	
REP. RON ERICKSON, VICE CHAIR, MINORITY		✓	
REP. GARY BRANAE		✓	
REP. JOAN ANDERSEN		✓	
REP. JACK ROSS		✓	
REP. GARY FORRESTER		✓	
REP. CAROL LAMBERT	✓		
REP. JOE BALYEAT		✓	
REP. JESSE LASLOVICH	✓		
REP. VERDELL JACKSON		✓	
REP. EILEEN CARNEY	✓		
REP. KARL WAITSCHIES		✓	
REP. LARRY CYR	✓		
REP. JIM PETERSON	✓		
REP. JILL COHENOUR	✓		
REP. BOB LAKE		✓	
REP. KIM GILLAN	✓		
REP. DAN FUCHS, CHAIRMAN	✓		
	8	10	

S:/TaxRollCallVote2003

HOUSE OF REPRESENTATIVES
Roll Call Vote
TAXATION COMMITTEE

SB

DATE 4-9-03 BILL NO 407 MOTION NO. 3

MOTION: DEVLIN: DO PASS AS AMENDED PASSED 10-8

NAME	AYE	NO	ABSENTEE
REP. RON DEVLIN, VICE CHAIR MAJORITY	✓		
REP. RON ERICKSON, VICE CHAIR, MINORITY		✓	
REP. GARY BRANAE		✓	
REP. JOAN ANDERSEN	✓		
REP. JACK ROSS	✓		
REP. GARY FORRESTER		✓	
REP. CAROL LAMBERT	✓		
REP. JOE BALYEAT	✓		
REP. JESSE LASLOVICH		✓	
REP. VERDELL JACKSON	✓		
REP. EILEEN CARNEY		✓	
REP. KARL WAITSCHIES	✓		
REP. LARRY CYR		✓	
REP. JIM PETERSON	✓		
REP. JILL COHENOUR		✓	
REP. BOB LAKE	✓		
REP. KIM GILLAN		✓	
REP. DAN FUCHS, CHAIRMAN	✓		
	10	8	

S:/TaxRollCallVote2003

FISCAL NOTE

Bill #: SB0407 **Title:** Income tax reduction with revenue from limited sales tax

Primary Sponsor: Depratu, B **Status:** As Amended House Taxation Committee on April 9, 2003

Sponsor signature Date Chuck Swysgood, Budget Director 4/11/03 Date

Fiscal Summary	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
General Fund	$1,625	$1,217,246	$131,956
Revenue:			
General Fund	$5,186,875	$37,847,251	$21,554,186
DPHHS – SSRA – Veteran's Homes	$338,218	$2,029,305	$1,949,385
Long-Range Building Program	$(3,615)	$(21,688)	$(49,668)
Net Impact on General Fund Balance:	$5,186,875	$36,630,005	$21,422,230

☐ Significant Local Gov. Impact	☒ Technical Concerns
☐ Included in the Executive Budget	☒ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This bill revises the state's individual income tax effective January 1, 2005 by:
   a) capping the current full deduction for federal income taxes paid during the tax year at $5,000 ($10,000 if married and filing jointly);
   b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
   c) providing for a new tax credit equal to 1% of net capital gains (2% beginning in tax year 2007).
2. Under this bill, the current tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.
3. The bill provides for a new tax rate table for tax year 2005 which will be indexed for inflation in all future tax years.

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4. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2005). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.
5. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $29,564,000 in tax year 2005 and by $45,915,000 in tax year 2006 (DOR income tax simulation model).
6. The Department of Revenue will adjust withholding tables in tax years 2005 and 2006 to accommodate the reduction in tax liability, and taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $15,752,000 in fiscal year 2005, and by $38,946,000 in fiscal year 2006

Accommodations and Campgrounds Tax

7. Beginning June 1, 2003, this bill would impose a 3% tax on accommodations and campgrounds in addition to the existing accommodations tax
8. Taxable accommodations and campground rentals would be $26.218 million in the one month of fiscal 2003 when the limited tax would be imposed on them. Tax liability would be $787,000 (3% x $26.218 million). Vendors would collect 95% of tax liability, or $747,000.
9. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. In fiscal 2003, with the tax in effect for only one month, no vendors would reach the limit, and vendor allowances would be 5% of taxes collected by vendors, or $37,000. Collections would be $710,000 ($747,000 - $37,000)
10. In FY04, taxable accommodations and campgrounds charges would be $319.495 million. Tax liability would be $9.585 million (3% x $319.495 million). Vendors would collect $9.106 million (95% x $9.585 million.
11. Beginning in fiscal 2004, there would be 35 vendors, accounting for 65% of taxable sales, for whom 5% of quarterly collections would be more than $1,000. The total amount retained for vendor allowances in fiscal 2004 would be $0.299 million (35 vendors x $4,000 + 5% x 35% x $9.106 million). Net collections to the general fund in fiscal 2004 would be $8.806 million ($9.106 million - $0.299 million)
12. In fiscal 2005, taxable accommodations and campgrounds charges would be $329.400 million. Tax liability would be $9.882 million (3% x $329.400 million). Vendors would collect $9.388 million (95% x $9.882 million).
13. Vendor allowances in fiscal 2005 would be $0.304 million (35 vendors x $4,000 + 5% x 35% x $9.388 million). Net collections to the general fund in fiscal 2005 would be $9.084 million (9.388 million - $0.304 million).

Rental Vehicle Tax

14. Beginning July 1, 2003, this bill would impose a 4% tax on the base rental charge for rental vehicles.
15. In fiscal 2004, taxable rental vehicle charges would be $60.396 million. Tax liability would be $2.416 million (4% x $60.396 million). Vendors would collect 95% of tax liability, or $2.295 million.
16. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. No vendors would be over the limit, so that vendor allowances would be 5% of taxes collected by vendors. Collections would be $2.180 million (95% x $2.295 million).
17. In fiscal 2005, taxable rental vehicle charges would be $62.268 million. Tax liability would be $2.491 million (4% x $62.268 million). Vendors would collect 95% of tax liability, or $2.366. Vendors would retain 5% of taxes collected, and net collections would be $2.248 million (95% x $2.366 million).

Cigarette Tax

18. The current law cigarette tax rate is $0.18 per pack. Under this proposal, the cigarette tax rate is increased by $0.52 to $0.70 per pack.

19. Increasing the tax rate for two months in fiscal 2003 increases cigarette taxes by $4,674,716. Based on the proposed law distribution percentages in the bill this would result in an increase in state general fund revenue of $4,340,113; a decrease in revenue to the long-range building program of $(3,615); and an increase in revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes of $338,218 in fiscal 2003.
20. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the long-range building program account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
21. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 8.3%, or $2 million, whichever is greater to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes; 4.3% to the long-range building program account; and 87.4% to the state general fund.
22. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.66% for the first 2,580 cartons purchased; from 4% to 1.11% for the next 2,580 cartons purchased; and from 3% to 0.83% for purchases in excess of 5,160 cartons.
23. Increasing the cigarette tax rate from $0.18 to $0.70 per pack, and decreasing the discount rates that wholesalers receive will generate net new revenue of $28,048,294 in fiscal 2004, and $27,040,371 in fiscal 2005.
24. Revenue to the state general fund will ***increase*** by $26,040,677 in fiscal 2004 and by $25,140,654 in fiscal 2005.
25. Revenue to the long-range building program account will ***decrease*** by $(21,688) in fiscal 2004 and by $(49,668) in fiscal 2005.
26. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will ***increase*** by $2,029,305 in fiscal 2004 and by $1,949,385 in fiscal 2005.
27. The above impacts are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of any tax increase. Given a base cost of $3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
28. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs.

Tobacco Products Tax

29. Under current law, all tobacco products other than cigarettes are taxed at a rate of 12.5% of the wholesale price. Under this bill, the tobacco products tax rate on all products other than "moist snuff" is increased to 25% of the wholesale price; the tax rate on moist snuff is raised from the equivalent of 28¢ an ounce to 35¢ an ounce.
30. Under current law and under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
31. Increasing the tobacco products tax rate from 12.5% to 50% of the wholesale price, and increasing the tax rate on moist snuff from the equivalent of 28¢ an ounce to 35¢ an ounce, will generate new general fund revenue of $136,762 in fiscal 2003; $820,574 in fiscal 2004; and $833,532 in fiscal 2005.
32. The impacts in assumption ten are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under

current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.

Administrative Impacts

33. The Department of Revenue would need a new computer system to administer the rental vehicle tax and would need to modify its existing income tax processing system. The costs for purchasing new software and having it customized would be $1,213,538 in fiscal 2004 and $131,956 in fiscal 2005. Office equipment and computers for contract programmers would be purchased in fiscal 2004 at a cost of $3,708. Ongoing costs for software maintenance would be $60,000 beginning in fiscal 2006. Modifying the existing income tax processing system would cost $6,365 in fiscal 2006.
34. In fiscal 2003, the department would send a mailing to all cigarette wholesalers explaining the procedures for changing the tax rate at a cost of $1,625.

FISCAL IMPACT:	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Expenditures:			
Operating Expenses	$1,625	$1,213,538	$131,956
Equipment		$3,708	
TOTAL	$1,625	$1,217,246	$131,956
Funding of Expenditures:			
General Fund (01)	$1,625	$1,217,246	$131,956
Revenues:			
General Fund (01)	$5,186,875	$37,847,251	$21,554,186
State Special Revenue (02)			
Long Range Building Program	$(3,615)	$(21,688)	$(49,668)
DPHHS - Veterans Home	$338,218	$2,029,305	$1,949,385
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$5,185,250	$36,630,005	$21,422,230
State Special Revenue (02)			
Long Range Building Program	$(3,615)	$(21,688)	$(49,668)
DPHHS - Veterans Home	$338,218	$2,029,305	$1,949,385

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
Beginning with tax year 2007, the capital gains tax credit provided for in this bill increases to 2% of net capital gains reported on the taxpayer's income tax return. This is anticipated to increase the net reduction in tax liability by approximately $7 million above what the reduction otherwise would be. Cigarette and tobacco product tax increases and revenue from accommodations and rental vehicle taxes will continue in future years.

TECHNICAL NOTES:
1. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.

FISCAL NOTE

Bill #: SB0407 **Title:** Income tax reduction with revenue from limited sales tax

Primary Sponsor: Depratu, B **Status:** As Amended House Taxation Committee on April 9, 2003

Sponsor signature Date Chuck Swysgood, Budget Director 4/24/03 Date

Fiscal Summary

	FY 2003	FY 2004 Difference	FY 2005 Difference
Expenditures:			
General Fund	$4,188	$40,573	$41,572
State Special Revenue	$411,175	$1,586,897	$1,497,169
Federal Special Revenue	$135	$1,679	$1,754
Other	$809	$10,070	$10,528
Revenue:			
General Fund	$5,792,382	$40,582,521	$24,155,429
DPHHS – SSRA – Veteran's Homes	$357,031	$2,142,187	$2,058,233
Long-Range Building Program	$6,132	$36,792	$6,724
Net Impact on General Fund Balance:	$5,788,174	$40,541,948	$24,113,857

☐	Significant Local Gov. Impact	☒	Technical Concerns
☐	Included in the Executive Budget	☒	Significant Long-Term Impacts
☐	Dedicated Revenue Form Attached	☐	Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This bill revises the state's individual income tax effective January 1, 2005 by:
   a) capping the current full deduction for federal income taxes paid during the tax year at $5,000 ($10,000 if married and filing jointly);
   b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
   c) providing for a new tax credit equal to 1% of net capital gains (2% beginning in tax year 2007).
2. Under this bill, the current tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the

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deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.

3. The bill provides for a new tax rate table for tax year 2005 which will be indexed for inflation in all future tax years.
4. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2005). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.
5. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $29,564,000 in tax year 2005 and by $45,915,000 in tax year 2006 (DOR income tax simulation model).
6. The Department of Revenue will adjust withholding tables in tax years 2005 and 2006 to accommodate the reduction in tax liability, and taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $15,752,000 in fiscal year 2005, and by $38,946,000 in fiscal year 2006

Accommodations and Campgrounds Tax

7. Beginning June 1, 2003, this bill would impose a 3% tax on accommodations and campgrounds in addition to the existing accommodations tax
8. Taxable accommodations and campground rentals would be $26.218 million in the one month of fiscal 2003 when the tax would be imposed on them. Tax liability would be $787,000 (3% x $26.218 million). Vendors would collect 95% of tax liability, or $747,000.
9. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. In fiscal 2003, with the tax in effect for only one month, no vendors would reach the limit, and vendor allowances would be 5% of taxes collected by vendors, or $37,000. Collections would be $710,000 ($747,000 - $37,000)
10. In fiscal 2004, taxable accommodations and campgrounds charges would be $319.495 million. Tax liability would be $9.585 million (3% x $319.495 million). Vendors would collect $9.106 million (95% x $9.585 million.
11. Beginning in fiscal 2004, there would be 35 vendors, accounting for 65% of taxable sales, for whom 5% of quarterly collections would be more than $1,000. The total amount retained for vendor allowances in fiscal 2004 would be $0.299 million (35 vendors x $4,000 + 5% x 35% x $9.106 million). Net collections to the general fund in fiscal 2004 would be $8.806 million ($9.106 million - $0.299 million)
12. In fiscal 2005, taxable accommodations and campgrounds charges would be $329.400 million. Tax liability would be $9.882 million (3% x $329.400 million). Vendors would collect $9.388 million (95% x $9.882 million).
13. Vendor allowances in fiscal 2005 would be $0.304 million (35 vendors x $4,000 + 5% x 35% x $9.388 million). Net collections to the general fund in fiscal 2005 would be $9.084 million (9.388 million - $0.304 million).
14. State agencies would pay the tax on employee business travel. Expenditures would be 75% of current law accommodations tax expenditures. General fund expenditures would be $2,563 in June of fiscal 2003, $31,890 in fiscal 2004 and $33,337 in fiscal 2005. Expenditures from state special revenue funds would be $ 3,237 in fiscal 2003, $40,282 in fiscal 2004 and $42,110 in fiscal 2005. Expenditures from federal special revenue funds would be $135 in fiscal 2003, $1,679 in fiscal 2004 and $1,754 in fiscal 2005. Expenditures from other funds, primarily agency proprietary funds, would be $809 in fiscal 2003, $10,070 in fiscal 2004 and $ 10,528 in fiscal 2005.

Rental Vehicle Tax

15. Beginning July 1, 2003, this bill would impose a 4% tax on the base rental charge for rental vehicles.

16. In fiscal 2004, taxable rental vehicle charges would be $60.396 million. Tax liability would be $2.416 million (4% x $60.396 million). Vendors would collect 95% of tax liability, or $2.295 million.
17. Vendors would be allowed to retain 5% of collections as an administrative allowance with a limit of $1,000 per quarter. No vendors would be over the limit, so that vendor allowances would be 5% of taxes collected by vendors. Collections would be $2.180 million (95% x $2.295 million).
18. In fiscal 2005, taxable rental vehicle charges would be $62.268 million. Tax liability would be $2.491 million (4% x $62.268 million). Vendors would collect 95% of tax liability, or $2.366. Vendors would retain 5% of taxes collected, and net collections would be $2.248 million (95% x $2.366 million).

Cigarette Tax

19. The current law cigarette tax rate is $0.18 per pack. Under this proposal, the cigarette tax rate is increased by $0.52 to $0.70 per pack.
20. Increasing the tax rate for two months in fiscal 2003 increases cigarette taxes by $4,901,385. Based on the proposed law distribution percentages in the bill this would result in an *increase* in state general fund revenue of $4,538,222; an *increase* in revenue to the long-range building program of $6,132; and an *increase* in revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes of $357,031 in fiscal 2003.
21. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the long-range building program account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
22. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 8.3%, or $2 million, *whichever is greater*, to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes; 4.3% to the long-range building program account; and the remaining balance (87.4%) to the state general fund.
23. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.66% for the first 2,580 cartons purchased; from 4% to 1.11% for the next 2,580 cartons purchased; and from 3% to 0.83% for purchases in excess of 5,160 cartons.
24. Increasing the cigarette tax rate from $0.18 to $0.70 per pack, and decreasing the discount rates that wholesalers receive will generate net new revenue of $29,408,311 in fiscal 2004, and $28,351,795 in fiscal 2005.
25. Revenue to the state general fund will ***increase*** by $27,229,332 in fiscal 2004 and by $26,286,838 in fiscal 2005.
26. Revenue to the long-range building program account will ***increase*** by $36,792 in fiscal 2004 and by $6,724 in fiscal 2005.
27. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will ***increase*** by $2,142,187 in fiscal 2004 and by $2,058,233 in fiscal 2005.
28. The above impacts are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of any tax increase. Given a base cost of $3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
29. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs.

Tobacco Products Tax

30. Under current law, all tobacco products other than cigarettes are taxed at a rate of 12.5% of the wholesale price. Under this bill, the tobacco products tax rate on all products other than "moist snuff" is increased to 25% of the wholesale price; the tax rate on moist snuff is raised from the equivalent of 28¢ an ounce to 35¢ an ounce.
31. Under current law and under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
32. Increasing the tobacco products tax rate from 12.5% to 50% of the wholesale price, and increasing the tax rate on moist snuff from the equivalent of 28¢ an ounce to 35¢ an ounce, will generate new general fund revenue of $136,762 in fiscal 2003; $820,574 in fiscal 2004; and $833,532 in fiscal 2005.
33. The impacts in assumption ten are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.

Transfers of Excess Fund Balances

34. Amounts in excess of $2 million in the state special revenue account for operation and maintenance of state veteran's nursing homes are transferred to the general fund at the end of each fiscal year.
35. Excess revenues transferred to the general fund under this provision will be $407,398 in fiscal year 2003, $1,546,615 in fiscal year 2004 and $1,455,059 in fiscal year 2005.

Administrative Impacts

36. The Department of Revenue's new data processing system required by SB271 would be used to administer all the taxes affected by this bill. The data processing system costs associated with the changes in this bill are included in the fiscal note for SB271.
37. The department would require an additional 0.25 FTE for administration and compliance work for the rental vehicle tax. Additional personnel costs would be $8,299 in fiscal 2004 and $8,235 in FY05. The department also would incur setup costs for processing rental vehicle tax forms of $384 in FY04.
38. In fiscal 2003, the department would send a mailing to all cigarette wholesalers explaining the procedures for changing the tax rate at a cost of $1,625.

FISCAL IMPACT:	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
FTE		0.25	0.25
Expenditures:			
Personal Services		$8,299	$8,235
Operating Expenses	$1,625	$384	$0
Transfers	$407,398	$1,546,615	$1,455,059
State Agency Sales Tax Payments	$6,743	$83,921	$87,728
TOTAL	$415,766	$1,639,219	$1,551,022
Funding of Expenditures:			
General Fund (01)	$4,188	$40,573	$41,572
State Special Revenue (02)	$411,175	$1,586,897	$1,497,169
Federal Special Revenue (03)	$135	$1,679	$1,754
Other	$809	$10,070	$10,528
TOTAL	$415,766	$1,639,219	$1,551,022

Revenues:			
General Fund (01)	$5,792,382	$40,582,521	$24,155,429
State Special Revenue (02)			
Long Range Building Program	$6,132	$36,792	$6,724
DPHHS - Veterans Home	$357,031	$2,142,187	$2,058,233
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$5,788,194	$40,541,948	$24,113,857
State Special Revenue (02)			
Long Range Building Program	$6,132	$36,792	$6,724
DPHHS - Veterans Home	$(50,367)	$595,572	$603,174
Agency Sales Tax Payments	$(3,237)	$(40,282)	$(42,110)
Federal Special Revenue (03)	$(135)	$(1,679)	$(1,754)
Other	$(809)	$(10,070)	$(10,528)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact.

LONG-RANGE IMPACTS:
Beginning with tax year 2007, the capital gains tax credit provided for in this bill increases to 2% of net capital gains reported on the taxpayer's income tax return. This is anticipated to increase the net reduction in tax liability by approximately $7 million above what the reduction otherwise would be. The impacts from the increase in the accommodations tax, the new rental car tax and the increases in the cigarette and other tobacco taxes, combined with the estimated reductions in revenue from the individual income tax are estimated to result in a net ***increase*** in revenue of $823,000 in fiscal 2006; and a net ***decrease*** in total revenues of $(13,813,000) in fiscal 2007, and $(17,021,000) in fiscal year 2008.

TECHNICAL NOTES:
1. If SB271 is not passed and approved, the Department of Revenue would need a new computer system to administer the rental vehicle tax. The costs for purchasing new software and having it customized would be $1,195,305 in fiscal 2004. Office equipment and computers for contract programmers would be purchased in fiscal 2004 at a cost of $11,124. Ongoing costs for software maintenance would be $50,000 beginning in fiscal 2005. The department also would need to modify its existing income tax processing system in fiscal 2006. The costs for contract programming services would be $6,365.

350

HOUSE STANDING COMMITTEE REPORT

Mr. Speaker:

We, your committee on **Taxation** recommend that **Senate Bill 407** (third reading copy -- blue) **be concurred in as amended.**

Signed: Daniel Fuchs
Representative Daniel Fuchs, Chair

To be carried by Representative Ronald Devlin

And, that such amendments read:

1. Title, page 1, line 12.
Strike: "TEMPORARILY"

2. Title, page 1, line 13.
Strike: "DEPOSITING" through "FUND"
Insert: "REVISING THE DISTRIBUTION OF THE CIGARETTE TAX"

3. Page 1, line 26.
Strike: "40"
Insert: "39"

4. Page 7, line 23.
Strike: "5%"
Insert: "3%"

5. Page 7, line 24.
Strike: "9%"
Insert: "4%"

6. Page 8, line 9.
Strike: "5%"

Committee Vote:
Yes 10, No 8.

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357

Insert: "3%"

7. Page 8, line 10.
Strike: "9%"
Insert: "4%"

8. Page 8, line 29.
Strike: "40"
Insert: "39"

9. Page 9, line 22.
Strike: "40"
Insert: "39"

10. Page 10, line 4.
Strike: "40"
Insert: "39"

11. Page 10, line 7.
Strike: "40"
Insert: "39"

12. Page 10, line 14.
Strike: "40"
Insert: "39"

13. Page 10, line 16.
Strike: "40"
Insert: "39"

14. Page 10, line 18.
Strike: "40"
Insert: "39"

15. Page 13, line 17.
Strike: "40"
Insert: "39"

16. Page 13, line 19.
Strike: "40"

Insert: "39"

17. Page 13, line 25.
Strike: "40"
Insert: "39"

18. Page 14, line 2.
Strike: "40"
Insert: "39"

19. Page 14, line 10.
Strike: "40"
Insert: "39"

20. Page 14, line 20.
Strike: "40"
Insert: "39"

21. Page 14, line 25.
Strike: "40"
Insert: "39"
Strike: "28"
Insert: "27"

22. Page 14, line 26.
Strike: "40"
Insert: "39"

23. Page 15, line 4.
Strike: "40"
Insert: "39"

24. Page 15, line 26.
Strike: "40"
Insert: "39"

25. Page 15, line 27.
Strike: "28"
Insert: "27"

26. Page 15, line 28.
Strike: "40"
Insert: "39"

27. Page 16, line 6.
Strike: "40"
Insert: "39"

28. Page 16, lines 9 through 16.
Strike: section 24 in its entirety
Renumber: subsequent sections

29. Page 16, line 19.
Strike: "20th"
Insert: "last"

30. Page 16, line 20.
Strike: "40"
Insert: "39"

31. Page 16, line 23.
Strike: "40"
Insert: "39"

32. Page 17, line 6.
Strike: "40"
Insert: "39"

33. Page 17, line 7.
Strike: "40"
Insert: "39"

34. Page 17, line 9.
Strike: "40"
Insert: "39"

35. Page 17, lines 23 and 24.
Strike: subsection (6) in its entirety

36. Page 17, line 27.
Strike: "on an accrual basis"
Strike: "25"
Insert: "24"

37. Page 18, line 13.
Strike: "25"
Insert: "24"

38. Page 19, line 4.
Strike: "40"
Insert: "39"

39. Page 19, line 8.
Strike: "25"
Insert: "24"

40. Page 19, line 27.
Strike: "40"
Insert: "39"

41. Page 19, line 28.
Strike: "40"
Insert: "39"

42. Page 20, line 13.
Strike: "40"
Insert: "39"

43. Page 20, line 22.
Strike: "40"
Insert: "39"

44. Page 21, line 5.
Strike: "40"
Insert: "39"

45. Page 21, line 7.
Strike: "40"
Insert: "39"

46. Page 21, line 9.
Strike: "40"
Insert: "39"

47. Page 21, line 13.
Following: line 13
Strike: "40"
Insert: "39"
Following: "~~41~~"
Strike: "40"
Insert: "39"

48. Page 21, line 19.
Strike: "40"
Insert: "39"

49. Page 21, line 25.
Strike: "40"
Insert: "39"

50. Page 22, line 15.
Strike: "40"
Insert: "39"

51. Page 22, line 21.
Strike: "40"
Insert: "39"

52. Page 22, line 22.
Strike: "40"
Insert: "39"

53. Page 22, line 27.
Strike: "40"
Insert: "39"

54. Page 23, line 7.
Strike: "40"
Insert: "39"

55. Page 23, line 11.
Strike: "40"
Insert: "39"

56. Page 23, line 17.
Strike: "40"
Insert: "39"

57. Page 38, line 19.
Following: "taxes."
Insert: "(1)"

58. Page 38, line 21.
Strike: "(1)"
Insert: "(a)"

59. Page 38, line 22.
Strike: "3.1%"
Insert: "8.3% or $2 million, whichever is greater,"

60. Page 38, line 24 through line 25.
Strike: subsection (2) in its entirety

61. Page 38, line 26.
Strike: "(3)"
Insert: "(b)"

62. Page 38, line 27.
Following: "~~AND~~"
Insert: "; and"
(c) the remainder to the state general fund

63. Page 38.
Following: line 29
Insert: "(2) If money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds $2 million at the end of the fiscal year, the excess must be transferred to the state general fund."

35

64. Page 40, line 20.
Following: "~~YEAR~~"
Insert: ", that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year"

65. Page 40, line 27.
Strike: "40"
Insert: "39"

66. Page 40, line 28.
Strike: "40"
Insert: "39"

67. Page 40, line 29.
Strike: "41"
Insert: "40"

68. Page 40, line 30.
Strike: "41"
Insert: "40"

69. Page 41, line 3.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

70. Page 41, line 14.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

71. Page 41, line 24.
Strike: "41"
Insert: "40"
Strike: "43"
Insert: "42"
Strike: "46"

Insert: "45"

- END -

MINUTES

MONTANA SENATE
58th LEGISLATURE - REGULAR SESSION

CONFERENCE COMMITTEE ON HOUSE AMENDMENTS TO SENATE BILL 407

Call to Order: By **CHAIRMAN BOB DEPRATU**, on April 22, 2003 at 4:08 P.M., in Room 405 Capitol.

ROLL CALL

Members Present:
Sen. Bob DePratu, Chairman (R)
Rep. Ronald Devlin (R)
Rep. Joe Balyeat, (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Rep. Jesse Laslovich (D)

Members Excused: None.

Members Absent: None.

Staff Present: Shirley Herrin, Committee Secretary
Jeff Martin, Legislative Staff

Video-taped Committee: These minutes are in outline form only. They provide a list of participants and a record of official action taken by the committee. A video-taped recording of the meeting is available from the Montana Historical Society.

Committee Business Summary:
Discusson On: SB 407

4:09 Jeff Martin, Legislative Services Division, reviewed the amendments (No. 1-71) to SB 407 **EXHIBIT(1)** in detail with the committee asking questions intermittently throughout the presentation.

Discussion:

4:20 Begin
4:32 Judy Paynter, Department of Revenue referred questions from the committee to Larry Finch, Dept. of Revenue.
4:39 Ended
19 min Time elapsed.

4:39pm **CHAIRMAN DEPRATU** recessed the Conference Committee meeting on SB 407 until Wednesday, April 23rd at approximately 11:00 a.m..

CONFERENCE COMMITTEE ON HOUSE AMENDMENTS TO SENATE BILL 407

11:54am **Call to Order:** The meeting was re-convened by **CHAIRMAN BOB DEPRATU**, on April 23, 2003, in Room 405 Capitol.

SEN. JON ELLINGSON presented an amendment SB040730.akj **EXHIBIT(2)**.

REP. RON DEVLIN moved to concur with the House amendments SB040715.akj (See Exhibit 1).

11:57 **SEN. ELLINGSON moved a conceptual amendment to the bill (See Exhibit 2)that would raise the percentages on the accommodation's tax and the rental car tax back to the original percentages as adopted by the Senate.**

Discussion:

11:57 Begin

12:04 **SEN. ELLINGSON** closed on his amendment.

12:08 **Vote: Motion to adopt the conceptual amendment failed 4-2 with REP. LASLOVICH and SEN. ELLINGSON voting aye.**

12:09 **Motion: SEN. BILL GLASER made a motion to the Senators only - "That the Senators recommend to the Senate that the Senate recede from the Conference Committee on SB 407 and the bill be placed before the Committee of the Whole this day, SB 407, as amended by the House".**

Vote: The motion carried 2-1 with SEN. DEPRATU and SEN. GLASER voting aye and SEN. ELLINGSON voting no.

12:12 **CHAIRMAN DEPRATU** will make the motion to bring SB 407 before the full Senate when it convenes at 1:00 P.M.

ADJOURNMENT

Adjournment: 12:12 P.M.

SEN. BOB DEPRATU, Chairman

MIKE ALLEN, Secretary

BD/JB/MA

CONFERENCE COMM.

SENATE TAXATION
DATE April 22 2003
EXHIBIT NO. 1
BILL NO. SB 407

Amendments to Senate Bill No. 407
3rd Reading Copy

For the House Taxation Committee

Prepared by Jeff Martin
April 22, 2003 (3:23pm)

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Strike: "DEPOSITING" through "FUND"
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Insert: "3%"

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Insert: "4%"

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Insert: "4%"

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Insert: "39"

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50. Page 22, line 15.
Strike: "40"
Insert: "39"

51. Page 22, line 21.
Strike: "40"
Insert: "39"

52. Page 22, line 22.
Strike: "40"

21 t

Insert: "39"

53. Page 22, line 27.
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54. Page 23, line 7.
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Insert: "(a)"

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Strike: subsection (2) in its entirety

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Insert: "(b)"

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Following: "~~AND~~"
Insert: "; and"
(c) the remainder to the state general fund

63. Page 38.

308

Following: line 29
Insert: "(2) If money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds $2 million at the end of the fiscal year, the excess must be transferred to the state general fund."

64. Page 40, line 20.
Following: "~~YEAR~~"
Insert: ", that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year"

65. Page 40, line 27.
Strike: "40"
Insert: "39"

66. Page 40, line 28.
Strike: "40"
Insert: "39"

67. Page 40, line 29.
Strike: "41"
Insert: "40"

68. Page 40, line 30.
Strike: "41"
Insert: "40"

69. Page 41, line 3.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

70. Page 41, line 14.
Strike: "41"
Insert: "40"
Strike: "48"
Insert: "47"

71. Page 41, line 24.
Strike: "41"
Insert: "40"
Strike: "43"

Insert: "42"
Strike: "46"
Insert: "45"

- END -

3P

Conference Comm.

SENATE TAXATION
DATE April 23 2003
EXHIBIT NO. 2
BILL NO. SB 407

Amendments to Senate Bill No. 407
Reference Copy

Requested by Senator Jon Ellingson

For the Senate Conference Committee

Prepared by Jeff Martin
April 23, 2003 (10:08am)

1. Page 7, line 26.
Strike: "3%"
Insert: "5%"

2. Page 7, line 27.
Strike: "4%"
Insert: "9%"

3. Page 8, line 12.
Strike: "3%"
Insert: "5%"

4. Page 8, line 13.
Strike: "4%"
Insert: "9%"

- END -

371

Conference Committee

SB 407

Sen. DePriest **Ch.** **Rep.** Devlin **VC**

Sen. Deaver **Rep.** Bolyard

Sen. Ellington **Rep.** Lockhart

Shirley Herrin **Secretary**

Jeff Martin **Staffer**

Room 405 at 4 on 4/22

Number of Senators voting for 2 Number of Representatives voting for 2

Committee Secretary Shirley Herrin Phone 1783 Room # 405A

Legislative Staff Researcher Jeff Martin Phone

Amendment Coordinator Date Time

senamend\confrpt.frm 4-26-93

SHORT TITLE: INCOME TAX REDUCTION w/ REVENUE FROM LIMITED SALES TAX

SPONSOR: DE PRATO

ORDER OF BUSINESS NO. 6

CONFERENCE COMMITTEE APPOINTMENTS

SENATOR THOMAS: MR. PRESIDENT, I MOVE THAT PRESIDENT KEENAN APPOINT A —

CONFERENCE COMMITTEE ON (H) (S) BILL NO. 407

AND REQUEST THE HOUSE TO APPOINT A LIKE COMMITTEE.

Pres Keenan: The President appoints:		The Speaker Appoints:	
SEN. Delratu	CHAIR	REP. Devlin	VICE CHAIR
SEN. Glaser		REP. Balyeat	
SEN. Ellington		REP. Ladovich	

TO THE — CONFERENCE COMMITTEE ON (H) (S) BILL NO. 407

SEQ NO. 1048 APR 3 2003
REVISION 0 1:35 PM

MONTANA SENATE
58th LEGISLATURE
2003 REGULAR SESSION

SB 407
DePRATU
THIRD READING
DO PASS

PRESIDING: KEENAN

31 YEAS 18 NAYS 0 NOT VOTING 1 EXCUSED 0 PAIRED

Y	ANDERSON	N	MCCARTHY
Y	BALES	Y	MCGEE
Y	BARKUS	Y	MCNUTT
Y	BLACK	N	NELSON
Y	BOHLINGER	N	ONEIL
Y	BUTCHER	Y	PEASE
Y	COBB	Y	PERRY
Y	COCCHIARELLA	N	ROUSH
N	COONEY	N	RYAN
N	CROMLEY	N	SCHMIDT
Y	CURTISS	N	SHEA
Y	DEPRATU	N	SPRAGUE
E	ELLINGSON	N	SQUIRES
N	ELLIOTT	Y	STAPLETON
Y	ESP	Y	STONINGTON
Y	GEBHARDT	Y	STORY
Y	GLASER	Y	TASH
Y	GRIMES	Y	TAYLOR
N	HANSEN	N	TESTER
N	HARRINGTON	Y	THOMAS
N	JOHNSON	N	TOOLE
Y	KITZENBERG	Y	TROPILA
Y	LAIBLE	N	WHEAT
Y	MAHLUM	Y	ZOOK
Y	MANGAN	Y	KEENAN

Y=YEA N=NAY E=EXCUSED -=ABENT OR NOT VOTING
YP=PAIRED YEA NP=PAIRED NAY Y*=CENTRAL YEA N*=CENTRAL NAY

HOUSE COMMITTEE OF THE WHOLE AMENDMENT

Senate Bill 407
Representative Jim Peterson

April 11, 2003 1:21 pm

Mr. Chairman:

I move to amend **Senate Bill 407** (second house second reading copy -- tan)

Signed: _____
Representative Jim Peterson

And, that such amendments to **Senate Bill 407** (second house second reading copy -- tan) read as follows:

1. Page 7, line 24.
Strike: "3%"
Insert: "2%"

2. Page 8, line 10.
Strike: "3%"
Insert: "2%"

3. Page 41, line 28.
Strike: "3(1)(B) AND (3)(A)(II)"
Insert: "3(1)(a) and (3)(a)(i)"

4. Page 41, line 29.
Strike: "JUNE"
Insert: "October"

- END -

ADOPT 82-18

REJECT

Amendment # SB 407-6

781321CW.hhn

375

HOUSE COMMITTEE OF THE WHOLE AMENDMENT

Senate Bill 407

Representative Sylvia Bookout-Reinicke

April 11, 2003 1:51 pm

Mr. Chairman:

I move to amend **Senate Bill 407** (second house second reading copy -- tan).

Signed: Sylvia Bookout-Reinicke

Representative Sylvia Bookout-Reinicke

And, that such amendments to **Senate Bill 407** (second house second reading copy -- tan) read as follows:

1. Title, line 12.
Following: line 11
Insert: "ALLOWING RESIDENTS A CREDIT AGAINST INDIVIDUAL INCOME TAXES FOR THEIR SHARE OF TAXES IMPOSED AND PAID TO ANOTHER STATE OR COUNTRY BY A PARTNERSHIP OF WHICH THE RESIDENT IS A PARTNER;"

2. Title, line 18.
Following: "15-30-122,"
Insert: "15-30-124,"

3. Page 35, line 29.
Insert: "**Section 47.** Section 15-30-124, MCA, is amended to read:

"**15-30-124. Credit allowed resident taxpayers for income taxes imposed by foreign states or countries.** (1) Subject to the conditions provided in subsections (2) through (5), a resident of this state is allowed a credit against the taxes imposed by this chapter for:

(a) income taxes imposed by and paid to another state or country on income taxable under this chapter; ~~and~~

(b) the resident's pro rata share of any income tax imposed by and paid to another state or country by an S. corporation of which the resident is a shareholder; and

ADOPT

REJECT

Amendment # SB 407-7

781351CW.hhn

AN ACT CREATING THE MONTANA ECONOMIC DEVELOPMENT TAX ACT; PROVIDING FOR A LIMITED SALES TAX AND USE TAX ON CERTAIN PROPERTY AND SERVICES; REDUCING INDIVIDUAL INCOME TAX RATES; ESTABLISHING A CAPITAL GAINS CREDIT; PROVIDING FOR COLLECTION OF THE LIMITED SALES TAX AND USE TAX; PROVIDING FOR DISTRIBUTION OF THE LIMITED SALES TAX AND USE TAX REVENUE; CLARIFYING THE DEFINITION OF "CONSUMER PRICE INDEX" RELATING TO INDIVIDUAL INCOME TAX PROVISIONS; AMENDING INDIVIDUAL INCOME TAX EXEMPTIONS; LIMITING THE INDIVIDUAL INCOME TAX DEDUCTION FOR FEDERAL INCOME TAX PAID; AMENDING THE INDIVIDUAL INCOME TAX STANDARD DEDUCTION; ALLOWING RESIDENTS A CREDIT AGAINST INDIVIDUAL INCOME TAXES FOR THEIR SHARE OF TAXES IMPOSED AND PAID TO ANOTHER STATE OR COUNTRY BY A PARTNERSHIP OF WHICH THE RESIDENT IS A PARTNER; INCREASING THE CIGARETTE TAX FROM 18 CENTS TO 70 CENTS ON A PACK OF CIGARETTES AND REVISING THE DISTRIBUTION OF THE CIGARETTE TAX; ADJUSTING THE CIGARETTE INSIGNIA DISCOUNTS; INCREASING THE TAX ON TOBACCO PRODUCTS FROM 12.5 PERCENT TO 25 PERCENT; PROVIDING FOR A TAX ON EACH OUNCE OF MOIST SNUFF; ADJUSTING THE WHOLESALER'S DISCOUNT FOR TOBACCO PRODUCTS; AMENDING SECTIONS 13-37-218, 15-30-101, 15-30-103, 15-30-112, 15-30-121, 15-30-122, 15-30-124, 15-30-142, 16-11-111, 16-11-114, 16-11-119, 16-11-201, 16-11-202, AND 16-11-206, MCA; AND PROVIDING EFFECTIVE DATES AND APPLICABILITY DATES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short title. [This act] may be cited as the "Montana Economic Development Tax Act".

Section 2. Definitions. For purposes of [sections 2 through 39], unless the context requires otherwise, the following definitions apply:

(1) (a) "Accommodations" means a building or structure containing individual sleeping rooms or suites that provides overnight lodging facilities for periods of less than 30 days to the general public for compensation.

(b) Accommodations includes a facility represented to the public as a hotel, motel, campground, resort, dormitory, condominium inn, dude ranch, guest ranch, hostel, public lodginghouse, or bed and breakfast facility.

(c) The term does not include a health care facility, as defined in 50-5-101, any facility owned by a corporation organized under Title 35, chapter 2 or 3, that is used primarily by persons under 18 years of age for camping purposes, any hotel, motel, hostel, public lodginghouse, or bed and breakfast facility whose average daily accommodation charge for single occupancy does not exceed 60% of the amount authorized under 2-18-501 for the actual cost of lodging for travel within the state of Montana, or any other facility that is rented solely on a monthly basis or for a period of 30 days or more.

(2) (a) "Admission" means payment made for the privilege of being admitted to a facility, place, or event.

(b) The term does not include payment for admittance to a movie theater or to a sporting event sanctioned by a school district, college, or university.

(3) (a) "Base rental charge" means the following:

(i) charges for time of use of the rental vehicle and mileage, if applicable;

(ii) charges accepted by the renter for personal accident insurance;

(iii) charges for additional drivers or underage drivers; and

(iv) charges for child safety restraints, luggage racks, ski racks, or other accessory equipment for the rental vehicle.

(b) The term does not include:

(i) rental vehicle price discounts allowed and taken;

(ii) rental charges or other charges or fees imposed on the rental vehicle owner or operator for the privilege of operating as a concessionaire at an airport terminal building;

(iii) motor fuel;

(iv) intercity rental vehicle drop charges; or

(v) taxes imposed by the federal government or by state or local governments.

(4) (a) "Campground" means a place used for public camping where persons may camp, secure tents, or park individual recreational vehicles for camping and sleeping purposes.

(b) The term does not include that portion of a trailer court, trailer park, or mobile home park intended for occupancy by trailers or mobile homes for resident dwelling purposes for periods of 30 consecutive days or more.

(5) "Engaging in business" means carrying on or causing to be carried on any activity with the purpose of receiving direct or indirect benefit.

(6) (a) "Lease", "leasing", or "rental" means any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration. A lease or rental may include future options to purchase or extend.

(b) Lease or rental includes agreements covering motor vehicles and trailers when the amount of consideration may be increased or decreased by reference to the amount realized upon sale or disposition of the property, as defined in 26 U.S.C. 7701(h)(1).

(c) The term does not include:

(i) a transfer of possession or control of property under a security agreement or deferred payment plan that requires the transfer of title upon completion of the required payments;

(ii) a transfer of possession or control of property under an agreement that requires the transfer of title upon completion of required payments and payment of an option price that does not exceed the greater of $100 or 1% of the total required payments; or

(iii) providing tangible personal property with an operator if an operator is necessary for the equipment to perform as designed and not just to maintain, inspect, or set up the tangible personal property.

(d) This definition must be used for sales tax and use tax purposes regardless of whether a transaction is characterized as a lease or rental under generally accepted accounting principles, the Internal Revenue Code, the Montana Uniform Commercial Code, or other provisions of federal, state, or local law.

(e) This definition must be applied only prospectively from the date of adoption and has no retroactive impact on existing leases or rentals.

(7) (a) "Motor vehicle" means a light vehicle as defined in 61-1-139, a motorcycle as defined in 61-1-105, a motor-driven cycle as defined in 61-1-106, a quadricycle as defined in 61-1-133, a motorboat or a sailboat as defined in 23-2-502, an off-highway vehicle as defined in 23-2-801 that:

(i) is rented for a period of not more than 30 days;

(ii) is rented without a driver, pilot, or operator; and

(iii) is designed to transport 15 or fewer passengers.

(b) Motor vehicle includes:

(i) a rental vehicle rented pursuant to a contract for insurance; and

(ii) a truck, trailer, or semitrailer that has a gross vehicle weight of less than 22,000 pounds, that is rented without a driver, and that is used in the transportation of personal property.

(c) The term does not include farm vehicles, machinery, or equipment.

(8) "Permit" or "seller's permit" means a seller's permit as described in [section 18].

(9) "Person" means an individual, estate, trust, fiduciary, corporation, partnership, limited liability company, limited liability partnership, or any other legal entity.

(10) "Purchaser" means a person to whom a sale of personal property is made or to whom a service is furnished.

(11) "Rental vehicle" means a motor vehicle that is used for or by a person other than the owner of the motor vehicle through an arrangement and for consideration.

(12) "Retail sale" means any sale, lease, or rental for any purpose other than for resale, sublease, or subrent.

(13) "Sale" or "selling" means the transfer of property for consideration or the performance of a service for consideration.

(14) (a) "Sales price" applies to the measure subject to sales tax and means the total amount or consideration, including cash, credit, property, and services, for which personal property or services are sold, leased, or rented or valued in money, whether received in money or otherwise, without any deduction for the following:

(i) the seller's cost of the property sold;

(ii) the cost of materials used, labor or service costs, interest, losses, all costs of transportation to the seller, all taxes imposed on the seller, and any other expense of the seller;

(iii) charges by the seller for any services necessary to complete the sale, other than delivery and installation charges;

(iv) delivery charges;

(v) installation charges;

(vi) the value of exempt personal property given to the purchaser when taxable and exempt personal property have been bundled together and sold by the seller as a single product or piece of merchandise; and

(vii) credit for any trade-in.

(b) The amount received for charges listed in subsections (14)(a)(iii) through (14)(a)(vii) are excluded

from the sales price if they are separately stated on the invoice, billing, or similar document given to the purchaser.

(c) The term does not include:

(i) discounts, including cash, term, or coupons that are not reimbursed by a third party that are allowed by a seller and taken by a purchaser on a sale;

(ii) interest, financing, and carrying charges from credit extended on the sale of personal property or services if the amount is separately stated on the invoice, bill of sale, or similar document given to the purchaser; or

(iii) any taxes legally imposed directly on the consumer that are separately stated on the invoice, bill of sale, or similar document given to the purchaser.

(d) In an exchange in which the money or other consideration received does not represent the value of the property or service exchanged, sales price means the reasonable value of the property or service exchanged.

(e) When the sale of property or services is made under any type of charge or conditional or time-sales contract or the leasing of property is made under a leasing contract, the seller or lessor shall treat the sales price, excluding any type of time-price differential, under the contract as the sales price at the time of the sale.

(15) "Sales tax" and "use tax" mean the applicable tax imposed by [section 3].

(16) "Seller" means a person that makes sales, leases, or rentals of personal property or services.

(17) (a) "Service" means an activity that is engaged in for another person for consideration and that is distinguished from the sale or lease of property. Service includes activities performed by a person for its members or shareholders.

(b) In determining what a service is, the intended use, principal objective, or ultimate objective of the contracting parties is irrelevant.

(18) "Use" or "using" includes use, consumption, or storage, other than storage for resale or for use solely outside this state, in the ordinary course of business.

Section 3. Imposition and rate of sales tax and use tax -- exceptions. (1) A sales tax of the following percentages is imposed on sales of the following property or services:

(a) 3% on accommodations and campgrounds;

(b) 4% on the base rental charge for rental vehicles.

(2) The sales tax is imposed on the purchaser and must be collected by the seller and paid to the department by the seller. The seller holds all sales taxes collected in trust for the state. The sales tax must be applied to the sales price.

(3) (a) For the privilege of using property or services within this state, there is imposed on the person using the following property or services a use tax equal to the following percentages of the value of the property or services:

(i) 3% on accommodations and campgrounds;

(ii) 4% on the base rental charge for rental vehicles.

(b) The use tax is imposed on property or services that were:

(i) acquired outside this state as the result of a transaction that would have been subject to the sales tax had it occurred within this state;

(ii) acquired within the exterior boundaries of an Indian reservation within this state as a result of a transaction that would have been subject to the sales tax had it occurred outside the exterior boundaries of an Indian reservation within this state;

(iii) acquired as the result of a transaction that was not initially subject to the sales tax imposed by subsection (1) or the use tax imposed by subsection (3)(a) but which transaction, because of the buyer's subsequent use of the property, is subject to the sales tax or use tax; or

(iv) rendered as the result of a transaction that was not initially subject to the sales tax or use tax but that because of the buyer's subsequent use of the services is subject to the sales tax or use tax.

(4) For purposes of this section, the value of property must be determined as of the time of acquisition, introduction into this state, or conversion to use, whichever is latest.

(5) The sale of property or services exempt or nontaxable under [sections 2 through 39] is exempt from the tax imposed in subsections (1) and (3).

(6) Lodging facilities and campgrounds are exempt from the tax imposed in subsections (1)(a) and (3)(a)(i) until October 1, 2003, for contracts entered into prior to [the effective date of this section] that provide for a guaranteed charge for accommodations or campgrounds.

Section 4. Presumption of taxability -- value -- rules. (1) In order to prevent evasion of the sales tax or use tax and to aid in its administration, it is presumed that:

(a) all sales by a person engaging in business are subject to the sales tax or use tax; and

(b) all property bought or sold by any person for delivery into this state is bought or sold for a taxable use within this state.

(2) In determining the amount of use tax due on the use of property or services, it is presumed, in the absence of preponderant evidence of another value, that value means the total amount of property or service or the reasonable value of other consideration paid for the use of the property or service, exclusive of any type of time-price differential. However, in an exchange in which the amount of money paid does not represent the value of the property or service purchased, the use tax must be imposed on the reasonable value of the property or service purchased.

(3) The department shall adopt rules providing for the payment of the sales tax and use tax based on a rounding method.

Section 5. Separate statement of tax -- no advertising to absorb or refund tax -- rules. (1) If a person collects a tax in excess of the tax imposed by [section 3], both the tax and the excess tax must be remitted to the department.

(2) Except as provided in subsection (4), the sales tax must be stated separately for all sales, except for sales from coin-operated or currency-operated machines.

(3) A person may not advertise, hold out, or state to the public or to any customer that the tax imposed by [sections 2 through 39] will be absorbed or refunded.

(4) The department may adopt rules permitting sellers the option of stating sales tax based upon a percentage of taxable sales.

Section 6. Liability of user for payment of use tax. (1) A person within this state who uses property is liable to the state for payment of the use tax if the use tax is payable on the value of the property but has not been paid.

(2) The liability imposed by this section is discharged if the buyer has paid the use tax to the seller for

payment to the department.

Section 7. Collection of sales tax and use tax -- listing of business locations and agents -- severability. (1) A person engaging in the business of selling property or services subject to taxation under [sections 2 through 39] shall collect the sales tax from the purchaser and pay the sales tax collected to the department.

(2) A person engaging in business within this state shall, before making any sales subject to [sections 2 through 39], obtain a seller's permit, as provided in [section 18], and at the time of making a sale, whether within or outside the state, collect the sales tax imposed by [section 3] from the purchaser and give to the purchaser a receipt, in the manner and form prescribed by rule, for the sales tax paid.

(3) The department may authorize the collection of the sales tax imposed by [section 3] by any retailer who does not maintain a place of business within this state but who, to the satisfaction of the department, is in compliance with the law. When authorized, the person shall collect the use tax upon all property and services that, to the person's knowledge, are for use within this state and subject to taxation under [sections 2 through 39].

(4) All sales tax and use tax required to be collected and all sales tax and use tax collected by any person under [sections 2 through 39] constitute a debt owed to this state by the person required to collect the sales tax and use tax.

(5) A person engaging in business within this state that is subject to [sections 2 through 39] shall provide to the department:

(a) the names and addresses of all of the person's agents operating within this state; and

(b) the location of each of the person's distribution houses or offices, sales houses or offices, and other places of business within this state.

(6) If any application of this section is held invalid, the application to other situations or persons is not affected.

Section 8. Nontaxable transaction certificate -- requirements. (1) A nontaxable transaction certificate executed by a buyer or lessee must be in the possession of the seller or lessor at the time that a nontaxable transaction occurs.

(2) A nontaxable transaction certificate must contain the information and be in the form prescribed by the department.

(3) Only a buyer or lessee who has registered with the department and whose seller's permit is valid may execute a nontaxable transaction certificate.

(4) If the seller or lessor accepts a nontaxable transaction certificate within the required time and believes in good faith that the buyer or lessee will employ the property or service transferred in a nontaxable manner, the properly executed nontaxable transaction certificate is considered conclusive evidence that the sale is nontaxable.

Section 9. Nontaxable transaction certificate -- form. (1) The department shall provide for a uniform nontaxable transaction certificate. A purchaser shall use the certificate when purchasing goods or services for resale or for other nontaxable transactions.

(2) At a minimum, the certificate must provide:

(a) the number of the seller's permit issued to the purchaser as provided in [section 18];

(b) the general character of property or service sold by the purchaser in the regular course of business;

(c) the property or service purchased for resale;

(d) the name and address of the purchaser; and

(e) a signature line for the purchaser.

(3) The department shall adopt rules to provide procedures for application for and provision of a certificate to a person engaging in business within this state prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] that has applied in a timely fashion is issued a certificate prior to [the applicability date of this section].

Section 10. Exemption -- government agencies -- exception. All sales by or uses by the United States or an agency or instrumentality of the United States are exempt from the sales tax and use tax.

Section 11. Exemption -- isolated or occasional sale or lease of property. The isolated or occasional sale or lease of property by a person that is not regularly engaged in or that does not claim to be

engaged in the business of selling or leasing the same or a similar property is exempt from the sales tax and use tax.

Section 12. Nontaxability -- sale of property for resale. The sale of property is nontaxable if:

(1) the sale is made to a buyer who delivers a nontaxable transaction certificate to the seller;

(2) the buyer resells the property either by itself or in combination with other property; and

(3) the subsequent sale is in the ordinary course of business and the property will be subject to the sales tax.

Section 13. Nontaxability -- sale of service for resale. The sale of a service for resale is nontaxable if:

(1) the sale is made to a person who delivers a nontaxable transaction certificate;

(2) the buyer resells the service and separately states the value of the service purchased in the charge for the service in the subsequent sale; and

(3) the subsequent sale is in the ordinary course of business and subject to the sales tax.

Section 14. Nontaxability -- lease for subsequent lease. The lease of property is nontaxable if:

(1) the lease is made to a lessee who delivers a nontaxable transaction certificate; and

(2) the lessee does not use the property in any manner other than for subsequent lease in the ordinary course of business.

Section 15. Nontaxability -- use of property for leasing. The value of leased property is not considered in computing the use tax due if the person holding the property for lease:

(1) is engaged in a business that derives a substantial portion of its receipts from leasing or selling property of the type leased;

(2) does not use the property in any manner other than holding it for lease or sale or leasing or selling it either by itself or in combination with other tangible personal property in the ordinary course of business; and

(3) does not use the property in a manner incidental to the performance of a service.

Section 16. Nontaxability -- nonprofits. The sale of property or of a service is nontaxable if the seller is an organization that has a tax-exempt designation under the provisions of section 501(c)(3) of the Internal Revenue Code, 26 U.S.C. 501(c)(3), as amended.

Section 17. Credit -- out-of-state taxes. If a sales, use, or similar tax has been levied by another state or a political subdivision of another state on property that was leased outside this state but that will be used or consumed in this state and the tax was paid by the current user, the amount of tax paid may be credited against any use tax due this state on the same property. The credit may not exceed the sales tax or use tax due this state.

Section 18. Seller's permit. (1) A person that wishes to engage in business within this state that is subject to [sections 2 through 39] shall obtain a seller's permit before engaging in business within this state.

(2) Upon an applicant's compliance with [sections 2 through 39], the department shall issue to the applicant a separate, numbered seller's permit for each location in which the applicant maintains an office or other place of business within Montana. A permit is valid until revoked or suspended but is not assignable. A permit is valid only for the person in whose name it is issued and for the transaction of business at the place designated. The permit must be conspicuously displayed at all times at the place for which it is issued.

(3) The department shall adopt rules to provide procedures for application for and provision of a seller's permit to a person engaging in business within this state that is subject to [sections 2 through 39] prior to [the applicability date of this section]. The rules adopted by the department must ensure that each person engaging in business within this state prior to [the applicability date of this section] is issued a seller's permit prior to [the applicability date of this section]. The department may adopt rules providing for seasonal permits.

Section 19. Permit application -- requirements -- place of business -- form. (1) (a) A person that wishes to engage in the business of making retail sales or providing services in Montana that are subject to [sections 2 through 39] shall file with the department an application for a permit. If the person has more than one location in which the person maintains an office or other place of business, an application may include multiple locations.

(b) An applicant who does not maintain an office or other place of business and who moves from place to place is considered to have only one place of business and shall attach the permit to the applicant's cart, stand, truck, or other merchandising device.

(2) Each person or class of persons required to file a return under [sections 2 through 39] is required to file an application for a permit.

(3) Each application for a permit must be on a form prescribed by the department and must set forth the name under which the applicant intends to transact business, the location of the applicant's place or places of business, and other information that the department may require. The application must be filed by the owner if the owner is a natural person or by a person authorized to sign the application if the owner is a corporation, partnership, limited liability company, or some other business entity.

Section 20. Revocation or suspension of permit -- appeal. (1) Subject to the provisions of subsection (2), the department may, for reasonable cause, revoke or suspend any permit held by a person that fails to comply with the provisions of [sections 2 through 39].

(2) The department shall provide dispute resolution on a proposed revocation or suspension pursuant to 15-1-211.

(3) If a permit is revoked, the department may not issue a new permit except upon application accompanied by reasonable evidence of the intention of the applicant to comply with the provisions of [sections 2 through 39]. The department may require security in addition to that authorized by [section 27] in an amount reasonably necessary to ensure compliance with [sections 2 through 39] as a condition for the issuance of a new permit to the applicant.

(4) A person aggrieved by the department's final decision to revoke a permit, as provided in subsection (1), may appeal the decision to the state tax appeal board within 30 days after the date on which the department issued its final decision.

Section 21. Improper use of subject of purchase obtained with nontaxable transaction certificate -- penalty. (1) If a purchaser that uses a nontaxable transaction certificate uses the subject of the purchase for a purpose other than one allowed as nontaxable under [sections 2 through 39], the use is considered a taxable sale as of the time of first use by the purchaser and the sales price is the price that the purchaser paid. If the sole

nonexempt use is rental while holding for sale, the purchaser shall include in the sales price the amount of the rental charged. Upon subsequent sale of the property, the seller shall include the entire amount of the sales price, without deduction of amounts previously received as rentals.

(2) A person that uses a certificate for property that will be used for a purpose other than the purpose claimed is subject to a penalty, payable to the department, of $100 for each transaction in which an improper use of a certificate has occurred.

(3) Upon a showing of good cause, the department may abate or waive the penalty or a portion of the penalty

Section 22. Commingling nontaxable certificate goods. If a purchaser uses a nontaxable transaction certificate with respect to the purchase of fungible goods and commingles these goods with fungible goods that were not purchased with a certificate but that are of such similarity that the identity of the goods in the commingled mass cannot be determined, sales from the mass of commingled goods are considered to be sales of the goods purchased with the certificate until the quantity of commingled goods sold equals the quantity of goods originally purchased under the certificate.

Section 23. Liability for payment of tax -- security for retailer without place of business -- penalty. (1) Liability for the payment of the sales tax and use tax is not extinguished until the taxes have been paid to the department.

(2) A retailer that does not maintain an office or other place of business within this state is liable for the sales tax or use tax in accordance with [sections 2 through 39] and may be required to furnish adequate security, as provided in [section 27], to ensure collection and payment of the taxes. When authorized and except as otherwise provided in [sections 2 through 39], the retailer is liable for the taxes upon all property sold and services provided in this state in the same manner as a retailer who maintains an office or other place of business within this state. The seller's permit provided for in [section 18] may be canceled at any time if the department considers the security inadequate or believes that the taxes can be collected more effectively in another manner.

(3) An agent, canvasser, or employee of a retailer doing business within this state may not sell, solicit orders for, or deliver any property or services within Montana unless the principal, employer, or retailer

possesses a seller's permit issued by the department. If an agent, canvasser, or employee violates the provisions of [sections 2 through 39], the person is subject to a fine of not more than $100 for each separate transaction or event.

Section 24. Returns -- payment -- authority of department. (1) Except as provided in subsection (2), on or before the last day of the month following the calendar quarter in which the transaction subject to the tax imposed by [sections 2 through 39] occurred, a return, on a form provided by the department, and payment of the tax for the preceding quarter must be filed with the department. Each person engaged in business within this state or using property or services within this state that are subject to tax under [sections 2 through 39] shall file a return. A person making retail sales at two or more places of business shall file a separate return for each separate place of business.

(2) A person who has been issued a seasonal seller's permit shall file a return and pay the tax on the date or dates set by the department.

(3) (a) For the purposes of the sales tax or use tax, a return must be filed by:

(i) a retailer required to collect the tax; and

(ii) a person that:

(A) purchases any items the storage, use, or other consumption of which is subject to the sales tax or use tax; and

(B) has not paid the tax to a retailer required to pay the tax.

(b) Each return must be authenticated by the person filing the return or by the person's agent authorized in writing to file the return.

(4) (a) A person required to collect and pay to the department the taxes imposed by [sections 2 through 39] shall keep records, render statements, make returns, and comply with the provisions of [sections 2 through 39] and the rules prescribed by the department. Each return or statement must include the information required by the rules of the department.

(b) For the purpose of determining compliance with the provisions of [sections 2 through 39], the department is authorized to examine or cause to be examined any books, papers, records, or memoranda relevant to making a determination of the amount of tax due, whether the books, papers, records, or memoranda are the property of or in the possession of the person filing the return or another person. In determining

compliance, the department may use statistical sampling and other sampling techniques consistent with generally accepted auditing standards. The department may also:

(i) require the attendance of a person having knowledge or information relevant to a return;

(ii) compel the production of books, papers, records, or memoranda by the person required to attend;

(iii) implement the provisions of 15-1-703 if the department determines that the collection of the tax is or may be jeopardized because of delay;

(iv) take testimony on matters material to the determination; and

(v) administer oaths or affirmations.

(5) Pursuant to rules established by the department, returns may be computer-generated and electronically filed.

Section 25. Credit for taxes paid on worthless accounts -- taxes paid if account collected. (1) Sales taxes paid by a person filing a return under [section 24] on sales found to be worthless and actually deducted by the person as a bad debt for federal income tax purposes may be credited on a subsequent payment of the tax.

(2) Bad debts may be deducted within 12 months after the month in which the bad debt has been charged off for federal income tax purposes. "Charged off for federal income tax purposes" includes the charging off of unpaid balances due on accounts as uncollectible or declaring as uncollectible such unpaid balance due on accounts in the case of a seller who is not required to file federal income tax returns.

(3) If an account is subsequently collected, the sales tax must be paid on the amount collected.

(4) A seller may obtain a refund of tax on any amount of bad debt that exceeds the amount of taxable sales within a 12-month period defined by that bad debt.

(5) For purposes of computing a bad debt deduction or reporting a payment received on a previously claimed bad debt, any payments made on a debt or account are applied first to interest, service charges, and any other charges and second to the price of the property or service and sales tax on the property or service, proportionally.

Section 26. Vendor allowance. (1) A person filing a timely return under [section 24] may claim a quarterly vendor allowance for each permitted location in the amount of 5% of the tax determined to be payable

to the state, not to exceed $1,000 a quarter.

(2) The allowance may be deducted on the return.

(3) A person that files a return or payment after the due date for the return or payment may not claim a vendor allowance.

Section 27. Security -- limitations -- sale of security deposit at auction -- bond. (1) The department may require a retailer to deposit, with the department, security in a form and amount that the department, by administrative rule, determines is appropriate. The deposit may not be more than twice the estimated average liability for the period for which the return is required to be filed. The amount of security may be increased or decreased by the department, subject to the limitations provided in this section.

(2) (a) If necessary, the department may sell, at public auction, property deposited as security to recover any sales tax or use tax amount required to be collected, including interest and penalties.

(b) Notice of the sale must be served personally upon or sent by certified mail to the person that deposited the security.

(c) After the sale, any surplus above the amount due that is not required as security under this section must be returned to the person that deposited the security.

(3) In lieu of security, the department may require a retailer to file a bond, issued by a surety company authorized to transact business within this state, to guarantee solvency and responsibility.

(4) In addition to the other requirements of this section, the department may require the corporate officers, directors, or shareholders of a corporation to provide a personal guaranty and assumption of liability for the payment of the tax due under [sections 2 through 39].

Section 28. Examination of return -- adjustments -- delivery of notices and demands. (1) If the department determines that the amount of tax due is different from the amount reported, the amount of tax computed on the basis of the examination conducted pursuant to [section 24] constitutes the tax to be paid.

(2) If the tax due exceeds the amount of tax reported as due on the taxpayer's return, the excess must be paid to the department within 30 days after notice of the amount and demand for payment is mailed or delivered to the person making the return unless the taxpayer files a timely objection as provided in 15-1-211. If the amount of the tax found due by the department is less than that reported as due on the return and has

been paid, the excess must be credited or, if no tax liability exists or is likely to exist, refunded to the person making the return.

(3) The notice and demand provided for in this section must contain a statement of the computation of the tax and interest and must be sent by mail to the taxpayer at the address given in the taxpayer's return, if any, or to the taxpayer's last-known address.

(4) A taxpayer filing an objection to the demand for payment is subject to and governed by the uniform dispute review procedure provided in 15-1-211.

Section 29. Penalties and interest for violation. If a person fails to file a return on or before the due date or fails to pay a tax on or before a due date, the person must be assessed penalty and interest as provided in 15-1-216.

Section 30. Authority to collect delinquent taxes. (1) (a) The department shall collect taxes that are delinquent as determined under [sections 2 through 39].

(b) If a tax imposed by [sections 2 through 39] or any portion of the tax is not paid when due, the department may issue a warrant for distraint as provided in Title 15, chapter 1, part 7.

(2) In addition to any other remedy, in order to collect delinquent taxes after the time for appeal has expired, the department may direct the offset of tax refunds or other funds due the taxpayer from the state, except wages subject to the provisions of 25-13-614 and retirement benefits.

(3) As provided in 15-1-705, the taxpayer has the right to a review of the tax liability prior to any offset by the department.

(4) The department may file a claim for state funds on behalf of the taxpayer if a claim is required before funds are available for offset.

Section 31. Interest on deficiency. Interest accrues on unpaid or delinquent taxes as provided in 15-1-216.

Section 32. Limitations. (1) Except in the case of a person that purposely or knowingly, as those terms are defined in 45-2-101, files a false or fraudulent return violating the provisions of [sections 2 through 39], a

deficiency may not be assessed or collected with respect to a quarter for which a return is filed unless the notice of additional tax proposed to be assessed is mailed to or personally served upon the taxpayer within 5 years from the date that the return was filed. For purposes of this section, a return filed before the last day prescribed for filing is considered to be filed on the last day.

(2) If, before the expiration of the 5-year period prescribed in subsection (1) for assessment of the tax, the taxpayer consents in writing to an assessment after expiration of the 5-year period, a deficiency may be assessed at any time prior to the expiration of the period to which consent was given.

Section 33. Refunds -- interest -- limitations. (1) A claim for a refund or credit as a result of overpayment of taxes collected under [sections 2 through 39] must be filed within 5 years of the date that the return was due, without regard to any extension of time for filing.

(2) (a) Interest paid by the department on an overpayment must be paid or credited at the same rate as the rate charged on delinquent taxes under 15-1-216.

(b) Except as provided in subsection (2)(c), interest must be paid from the date that the return was due or the date of overpayment, whichever is later. Interest does not accrue during any period in which the processing of a claim is delayed more than 30 days because the taxpayer has not furnished necessary information.

(c) The department is not required to pay interest if:

(i) the overpayment is refunded or credited within 6 months of the date that a claim was filed; or

(ii) the amount of overpayment and interest does not exceed $1.

Section 34. Administration -- rules. The department shall:

(1) administer and enforce the provisions of [sections 2 through 39];

(2) cause to be prepared and distributed forms and information that may be necessary to administer the provisions of [sections 2 through 39]; and

(3) adopt rules that may be necessary or appropriate to administer and enforce the provisions of [sections 2 through 39].

Section 35. Revocation of corporate license -- appeal. (1) If a corporation authorized to do business

within this state and required to pay the taxes imposed under [sections 2 through 39] fails to comply with any of the provisions of [sections 2 through 39] or any rule of the department, the department may, for reasonable cause, certify to the secretary of state a copy of an order finding that the corporation has failed to comply with specific statutory provisions or rules.

(2) The secretary of state shall, upon receipt of the certification, revoke the certificate authorizing the corporation to do business within this state and may issue a new certificate only when the corporation has obtained from the department an order finding that the corporation has complied with its obligations under [sections 2 through 39].

(3) An order authorized in this section may not be made until the corporation is given an opportunity for dispute resolution as provided in 15-1-211.

(4) A final decision of the department may be appealed to the state tax appeal board.

Section 36. Taxpayer quitting business -- liability of successor. (1) (a) All taxes payable under [sections 2 through 39] are due and payable immediately whenever a taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(b) The taxpayer shall make a return and pay the taxes due within 10 days after the taxpayer quits business, sells, exchanges, or otherwise disposes of the business or disposes of the stock of goods.

(2) Except as provided in subsection (4), a person that becomes a successor is liable for the full amount of the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient to pay any tax due until the taxpayer produces either a receipt from the department showing payment in full of any tax due or a statement from the department that tax is not due.

(3) If a tax is due but has not been paid as provided in subsection (1)(b), the successor is liable for the payment of the full amount of tax. The payment of the tax by the successor is considered to be a payment upon the sales price, and if the payment is greater in amount than the sales price, the amount of the difference becomes a debt due to the successor from the taxpayer owing the tax under subsection (1).

(4) (a) A successor is not liable for any tax due from the person that the successor acquired a business or stock of goods from if:

(i) the successor gives written notice to the department of the acquisition; and

(ii) an assessment is not issued by the department against the former operator of the business within

6 months of receipt of the notice from the successor.

(b) If an assessment is issued by the department, a copy of the assessment must also be mailed to the successor, or if an assessment is not mailed to the successor, the successor is not liable for the tax due.

Section 37. Tax as debt. (1) The tax imposed by [sections 2 through 39] and related interest and penalties become a personal debt of the person required to file a return from the time that the liability arises, regardless of when the time for payment of the liability occurs.

(2) (a) This section applies to those corporate officers, directors, or shareholders required by the department to personally guarantee the payment of the taxes for their corporations.

(b) The officer or employee of a corporation whose duty it is to collect, truthfully account for, and pay to the state the amounts imposed by [sections 2 through 39] and who fails to pay the tax is liable to the state for the amounts imposed by [sections 2 through 39] and the penalty and interest due on the amounts.

Section 38. Information -- confidentiality -- agreements with another state. (1) (a) Except as provided in subsections (2) through (4), it is unlawful for an employee of the department or any other public official or public employee to divulge or otherwise make known information that is disclosed in a report or return required to be filed under [sections 2 through 39] or information that concerns the affairs of the person making the return and that is acquired from the person's records, officers, or employees in an examination or audit.

(b) This section may not be construed to prohibit the department from publishing statistics if they are classified in a way that does not disclose the identity and content of any particular report or return. A person violating the provisions of this section is subject to the penalty provided in 15-30-303 or 15-31-511 for violating the confidentiality of individual income tax or corporation license information.

(2) (a) The department may enter into an agreement with the taxing officials of another state for the interpretation and administration of the laws of their state that provide for the collection of a sales tax or use tax in order to promote fair and equitable administration of the laws and to eliminate double taxation.

(b) In order to implement the provisions of [sections 2 through 39], the department may furnish information on a reciprocal basis to the taxing officials of another state if the information remains confidential under statutes within the state receiving the information that are similar to this section.

(3) In order to facilitate processing of returns and payment of taxes required by [sections 2 through 39],

the department may contract with vendors and may disclose data to the vendors. The data disclosed must be administered by the vendor in a manner consistent with this section.

(4) This section may not be construed to limit the investigative authority of the legislative branch, as provided in 5-11-106, 5-12-303, or 5-13-309.

Section 39. Sales tax and use tax proceeds. All money collected under [sections 2 through 39] must be deposited by the department into the general fund.

Section 40. Capital gains credit. An individual taxpayer is allowed a credit against the taxes imposed by 15-30-103 in an amount equal to 1% of the taxpayer's net capital gains for tax years 2005 and 2006 and 2% of the taxpayer's net capital gains for tax years beginning after 2006, as shown on the taxpayer's individual income tax return filed pursuant to 15-30-142. The credit allowed under this section may not exceed the taxpayer's income tax liability.

Section 41. Section 13-37-218, MCA, is amended to read:

"13-37-218. Limitations on receipts from political committees. A candidate for the state senate may receive no more than ~~$1,000~~ $2,400 in total combined monetary contributions from all political committees contributing to the candidate's campaign, and a candidate for the state house of representatives may receive no more than ~~$600~~ $1,400 in total combined monetary contributions from all political committees contributing to the candidate's campaign. The limitations in this section must be multiplied by the inflation factor, as defined in 15-30-101, for the year in which general elections are held. The resulting figure must be rounded off to the nearest $50 increment. The commissioner shall publish the revised limitations as a rule. In-kind contributions must be included in computing these limitation totals. The limitation provided in this section does not apply to contributions made by a political party eligible for a primary election under 13-10-601."

Section 42. Section 15-30-101, MCA, is amended to read:

"15-30-101. Definitions. For the purpose of this chapter, unless otherwise required by the context, the following definitions apply:

(1) "Base year structure" means the following elements of the income tax structure:

(a) the tax brackets established in 15-30-103, but unadjusted by 15-30-103(2), in effect on June 30 of the taxable year;

(b) the exemptions contained in 15-30-112, but unadjusted by 15-30-112(6), in effect on June 30 of the taxable year;

(c) the maximum standard deduction provided in 15-30-122, but unadjusted by 15-30-122(2), in effect on June 30 of the taxable year.

(2) "Consumer price index" means the consumer price index, United States city average, for all items, for all urban consumers (CPI-U), using the ~~1967~~ 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

(3) "Corporation" or "C. corporation" means a corporation, limited liability company, or other entity:

(a) that is treated as an association for federal income tax purposes;

(b) for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is not in effect; and

(c) that is not a disregarded entity.

(4) "Department" means the department of revenue.

(5) "Disregarded entity" means a business entity:

(a) that is disregarded as an entity separate from its owner for federal tax purposes, as provided in United States treasury regulations 301.7701-2 or 301.7701-3, 26 CFR 301.7701-2 or 26 CFR 301.7701-3, or as those regulations may be labeled or amended; or

(b) that is a qualified subchapter S. subsidiary that is not treated as a separate corporation, as provided in section 1361(b)(3) of the Internal Revenue Code (26 U.S.C. 1361(b)(3)).

(6) "Dividend" means:

(a) any distribution made by a C. corporation out of its earnings and profits to its shareholders or members, whether in cash or in other property or in stock of the corporation, other than stock dividends; and

(b) any distribution made by an S. corporation treated as a dividend for federal income tax purposes.

(7) "Fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person, whether individual or corporate, acting in any fiduciary capacity for any person, trust, or estate.

(8) "Foreign government" means any jurisdiction other than the one embraced within the United States, its territories, and its possessions.

(9) "Gross income" means the taxpayer's gross income for federal income tax purposes as defined in section 61 of the Internal Revenue Code (26 U.S.C. 61) or as that section may be labeled or amended, excluding unemployment compensation included in federal gross income under the provisions of section 85 of the Internal Revenue Code (26 U.S.C. 85) as amended.

(10) "Inflation factor" means a number determined for each tax year by dividing the consumer price index for June of the tax year by the consumer price index for June ~~1980~~ 2005.

(11) "Information agents" includes all individuals and entities acting in whatever capacity, including lessees or mortgagors of real or personal property, fiduciaries, brokers, real estate brokers, employers, and all officers and employees of the state or of any municipal corporation or political subdivision of the state, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable annual or periodical gains, profits, and income with respect to which any person or fiduciary is taxable under this chapter.

(12) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or as it may be labeled or further amended. References to specific provisions of the Internal Revenue Code mean those provisions as they may be otherwise labeled or further amended.

(13) "Knowingly" is as defined in 45-2-101.

(14) "Limited liability company" means a limited liability company, domestic limited liability company, or a foreign limited liability company as defined in 35-8-102.

(15) "Limited liability partnership" means a limited liability partnership as defined in 35-10-102.

(16) "Lottery winnings" means income paid either in lump sum or in periodic payments to:

(a) a resident taxpayer on a lottery ticket; or

(b) a nonresident taxpayer on a lottery ticket purchased in Montana.

(17) (a) "Montana source income" means:

(i) wages, salary, tips, and other compensation for services performed in the state or while a resident of the state;

(ii) gain attributable to the sale or other transfer of tangible property located in the state, sold or otherwise transferred while a resident of the state, or used or held in connection with a trade, business, or occupation carried on in the state;

(iii) gain attributable to the sale or other transfer of intangible property received or accrued while a

resident of the state;

(iv) interest received or accrued while a resident of the state or from an installment sale of real property or tangible commercial or business personal property located in the state;

(v) dividends received or accrued while a resident of the state;

(vi) net income or loss derived from a trade, business, profession, or occupation carried on in the state or while a resident of the state;

(vii) net income or loss derived from farming activities carried on in the state or while a resident of the state;

(viii) net rents from real property and tangible personal property located in the state or received or accrued while a resident of the state;

(ix) net royalties from real property and from tangible real property to the extent the property is used in the state or the net royalties are received or accrued while a resident of the state. The extent of use in the state is determined by multiplying the royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the royalty period in the tax year and the denominator of which is the number of days of physical location of the property everywhere during all royalty periods in the tax year. If the physical location is unknown or unascertainable by the taxpayer, the property is considered used in the state in which it was located at the time the person paying the royalty obtained possession.

(x) patent royalties to the extent the person paying them employs the patent in production, fabrication, manufacturing, or other processing in the state, a patented product is produced in the state, or the royalties are received or accrued while a resident of the state;

(xi) net copyright royalties to the extent printing or other publication originates in the state or the royalties are received or accrued while a resident of the state;

(xii) partnership income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiii) an S. corporation's separately and nonseparately stated income, gain, loss, deduction, or credit or item of income, gain, loss, deduction, or credit:

(A) derived from a trade, business, occupation, or profession carried on in the state;

(B) derived from the sale or other transfer or the rental, lease, or other commercial exploitation of property located in the state; or

(C) taken into account while a resident of the state;

(xiv) social security benefits received or accrued while a resident of the state;

(xv) taxable individual retirement account distributions, annuities, pensions, and other retirement benefits received while a resident of the state; and

(xvi) any other income attributable to the state, including but not limited to lottery winnings, state and federal tax refunds, nonemployee compensation, recapture of tax benefits, and capital loss addbacks.

(b) The term does not include:

(i) compensation for military service of members of the armed services of the United States who are not Montana residents and who are residing in Montana solely by reason of compliance with military orders and does not include income derived from their personal property located in the state except with respect to personal property used in or arising from a trade or business carried on in Montana; or

(ii) interest paid on loans held by out-of-state financial institutions recognized as such in the state of their domicile, secured by mortgages, trust indentures, or other security interests on real or personal property located in the state, if the loan is originated by a lender doing business in Montana and assigned out-of-state and there is no activity conducted by the out-of-state lender in Montana except periodic inspection of the security.

(18) "Net income" means the adjusted gross income of a taxpayer less the deductions allowed by this chapter.

(19) "Nonresident" means a natural person who is not a resident.

(20) "Paid", for the purposes of the deductions and credits under this chapter, means paid or accrued or paid or incurred, and the terms "paid or accrued" and "paid or incurred" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(21) "Partner" means a member of a partnership or a manager or member of any other entity, if treated as a partner for federal income tax purposes.

(22) "Partnership" means a general or limited partnership, limited liability partnership, limited liability company, or other entity, if treated as a partnership for federal income tax purposes.

(23) "Pass-through entity" means a partnership, an S. corporation, or a disregarded entity.

(24) "Pension and annuity income" means:

(a) systematic payments of a definitely determinable amount from a qualified pension plan, as that term is used in section 401 of the Internal Revenue Code (26 U.S.C. 401), or systematic payments received as the result of contributions made to a qualified pension plan that are paid to the recipient or recipient's beneficiary upon the cessation of employment;

(b) payments received as the result of past service and cessation of employment in the uniformed services of the United States;

(c) lump-sum distributions from pension or profit-sharing plans to the extent that the distributions are included in federal adjusted gross income;

(d) distributions from individual retirement, deferred compensation, and self-employed retirement plans recognized under sections 401 through 408 of the Internal Revenue Code (26 U.S.C. 401 through 408) to the extent that the distributions are not considered to be premature distributions for federal income tax purposes; or

(e) amounts received from fully matured, privately purchased annuity contracts after cessation of regular employment.

(25) "Purposely" is as defined in 45-2-101.

(26) "Received", for the purpose of computation of taxable income under this chapter, means received or accrued, and the term "received or accrued" must be construed according to the method of accounting upon the basis of which the taxable income is computed under this chapter.

(27) "Resident" applies only to natural persons and includes, for the purpose of determining liability to the tax imposed by this chapter with reference to the income of any taxable year, any person domiciled in the state of Montana and any other person who maintains a permanent place of abode within the state even though temporarily absent from the state and who has not established a residence elsewhere.

(28) "S. corporation" means an incorporated entity for which a valid election under section 1362 of the Internal Revenue Code (26 U.S.C. 1362) is in effect.

(29) "Stock dividends" means new stock issued, for surplus or profits capitalized, to shareholders in proportion to their previous holdings.

(30) "Taxable income" means the adjusted gross income of a taxpayer less the deductions and exemptions provided for in this chapter.

(31) ~~"Taxable year" or "tax year"~~ "Tax year" means the taxpayer's taxable year for federal income tax purposes.

(32) "Taxpayer" includes any person, entity, or fiduciary, resident or nonresident, subject to a tax or other obligation imposed by this chapter and unless otherwise specifically provided does not include a C. corporation."

Section 43. Section 15-30-103, MCA, is amended to read:

"**15-30-103. Rate of tax.** (1) There ~~shall~~ must be levied, collected, and paid for each ~~taxable~~ tax year ~~commencing on or after December 31, 1968,~~ upon the taxable income of ~~every~~ each taxpayer subject to this tax, after making allowance for exemptions and deductions as ~~hereinafter~~ provided in this chapter, a tax on the ~~following~~ brackets of taxable income as follows:

(a) on the first $2,300 of taxable income or any part of that income, 1%;

(b) on the next $1,800 of taxable income or any part of that income, 2%;

(c) on the next $2,100 of taxable income or any part of that income, 3%;

(d) on the next $2,200 of taxable income or any part of that income, 4%;

(e) on the next $2,400 of taxable income or any part of that income, 5%;

(f) on the next $3,100 of taxable income or any part of that income, 6%;

(g) on any taxable income in excess of $13,900 or any part of that income, 6.9%.

~~as adjusted under subsection (2) at the following rates:~~

~~(a) on the first $1,000 of taxable income or any part thereof, 2%;~~

~~(b) on the next $1,000 of taxable income or any part thereof, 3%;~~

~~(c) on the next $2,000 of taxable income or any part thereof, 4%;~~

~~(d) on the next $2,000 of taxable income or any part thereof, 5%;~~

~~(e) on the next $2,000 of taxable income or any part thereof, 6%;~~

~~(f) on the next $2,000 of taxable income or any part thereof, 7%;~~

~~(g) on the next $4,000 of taxable income or any part thereof, 8%;~~

~~(h) on the next $6,000 of taxable income or any part thereof, 9%;~~

~~(i) on the next $15,000 of taxable income or any part thereof, 10%;~~

~~(j) on any taxable income in excess of $35,000 or any part thereof, 11%.~~

(2) ~~By~~ By November 1 of each year, the department shall multiply the bracket amount contained in subsection (1) by the inflation factor for that ~~taxable~~ tax year and round the cumulative brackets to the nearest $100. The resulting adjusted brackets are effective for that ~~taxable~~ tax year and ~~shall~~ must be used as the basis for imposition of the tax in subsection (1) of this section."

Section 44. Section 15-30-112, MCA, is amended to read:

"15-30-112. Exemptions. (1) Except as provided in subsection (6), in the case of an individual, the exemptions provided by subsections (2) through (5) ~~shall~~ must be allowed as deductions in computing taxable income.

(2) (a) An exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for the taxpayer~~ all taxpayers.

(b) An additional exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(3) (a) An additional exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the taxpayer if ~~he~~ the taxpayer has attained the age of 65 before the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse has attained the age of 65 before the close of ~~such taxable~~ the tax year and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer.

(4) (a) An additional exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for~~ the taxpayer if ~~he~~ the taxpayer is blind at the close of ~~his taxable~~ the taxpayer's tax year.

(b) An additional exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed ~~for taxable years beginning after December 31, 1978,~~ for the spouse of the taxpayer if a separate return is made by the taxpayer and if the spouse is blind and, for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins, ~~has no~~ does not have gross income and is not the dependent of another taxpayer. For the purposes of this subsection (4)(b), the

determination of whether the spouse is blind ~~shall~~ must be made as of the close of the ~~taxable~~ tax year of the taxpayer, except that if the spouse dies during ~~such taxable~~ the tax year, ~~such~~ the determination ~~shall~~ must be made as of the time of ~~such~~ death.

(c) For purposes of this subsection (4), an individual is blind only if ~~his~~ the person's central visual acuity does not exceed 20/200 in the better eye with correcting lenses or if ~~his~~ visual acuity is greater than 20/200 but is accompanied by a limitation in the fields of vision ~~such~~ to an extent that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

(5) (a) An exemption of ~~$800~~ $1,900 ~~shall be~~ is allowed for ~~taxable years beginning after December 31, 1978, for~~ each dependent:

(i) whose gross income for the calendar year in which the ~~taxable~~ tax year of the taxpayer begins is less than $800; or

(ii) who is a child of the taxpayer and who:

(A) has not attained the age of 19 years at the close of the calendar year in which the ~~taxable~~ tax year of the taxpayer begins; or

(B) is a student.

(b) ~~No~~ An exemption ~~shall be~~ is not allowed under this subsection for ~~any~~ a dependent who has made a joint return with ~~his~~ the dependent's spouse for the ~~taxable~~ tax year beginning in the calendar year in which the ~~taxable~~ tax year of the taxpayer begins.

(c) For purposes of subsection (5)(a)(ii), the term "child" means an individual who is a son, stepson, daughter, or stepdaughter of the taxpayer.

(d) For purposes of subsection (5)(a)(ii)(B), the term "student" means an individual who, during each of 5 calendar months during the calendar year in which the ~~taxable~~ tax year of the taxpayer begins:

(i) is a full-time student at an educational institution; or

(ii) is pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a state or political subdivision of a state. For purposes of this subsection (5)(d)(ii), the term "educational institution" means only an educational institution ~~which~~ that normally maintains a regular faculty and curriculum and normally has a regularly organized body of students in attendance at the place where its educational activities are carried on.

(6) The department, by November 1 of each year, shall multiply all the exemptions provided in this

section by the inflation factor for that ~~taxable~~ tax year and round the product to the nearest $10. The resulting adjusted exemptions are effective for that ~~taxable~~ tax year and ~~shall~~ must be used in calculating the tax imposed in 15-30-103."

Section 45. Section 15-30-121, MCA, is amended to read:

"15-30-121. Deductions allowed in computing net income. (1) In computing net income, there are allowed as deductions:

(a) the items referred to in sections 161, including the contributions referred to in 33-15-201(5)(b), and 211 of the Internal Revenue Code of 1954 (26 U.S.C. 161 and 211), or as sections 161 and 211 are labeled or amended, subject to the following exceptions, which are not deductible:

(i) items provided for in 15-30-123;

(ii) state income tax paid;

(iii) premium payments for medical care as provided in subsection (1)(g)(i);

(iv) long-term care insurance premium payments as provided in subsection (1)(g)(ii);

(b) federal income tax paid within the tax year, not to exceed $5,000 for each taxpayer filing singly, head of household, or married filing separately or $10,000 if married and filing jointly;

(c) expenses of household and dependent care services as outlined in subsections (1)(c)(i) through (1)(c)(iii) and (2) and subject to the limitations and rules as set out in subsections (1)(c)(iv) through (1)(c)(vi), as follows:

(i) expenses for household and dependent care services necessary for gainful employment incurred for:

(A) a dependent under 15 years of age for whom an exemption can be claimed;

(B) a dependent as allowable under 15-30-112(5), except that the limitations for age and gross income do not apply, who is unable to provide self-care because of physical or mental illness; and

(C) a spouse who is unable to provide self-care because of physical or mental illness;

(ii) employment-related expenses incurred for the following services, but only if the expenses are incurred to enable the taxpayer to be gainfully employed:

(A) household services that are attributable to the care of the qualifying individual; and

(B) care of an individual who qualifies under subsection (1)(c)(i);

(iii) expenses incurred in maintaining a household if over half of the cost of maintaining the household is furnished by an individual or, if the individual is married during the applicable period, is furnished by the individual and the individual's spouse;

(iv) the amounts deductible in subsections (1)(c)(i) through (1)(c)(iii), subject to the following limitations:

(A) a deduction is allowed under subsection (1)(c)(i) for employment-related expenses incurred during the year only to the extent that the expenses do not exceed $4,800;

(B) expenses for services in the household are deductible under subsection (1)(c)(i) for employment-related expenses only if they are incurred for services in the taxpayer's household, except that employment-related expenses incurred for services outside the taxpayer's household are deductible, but only if incurred for the care of a qualifying individual described in subsection (1)(c)(i)(A) and only to the extent that the expenses incurred during the year do not exceed:

(I) $2,400 in the case of one qualifying individual;

(II) $3,600 in the case of two qualifying individuals; and

(III) $4,800 in the case of three or more qualifying individuals;

(v) if the combined adjusted gross income of the taxpayers exceeds $18,000 for the tax year during which the expenses are incurred, the amount of the employment-related expenses incurred, to be reduced by one-half of the excess of the combined adjusted gross income over $18,000;

(vi) for purposes of this subsection (1)(c):

(A) married couples shall file a joint return or file separately on the same form;

(B) if the taxpayer is married during any period of the tax year, employment-related expenses incurred are deductible only if:

(I) both spouses are gainfully employed, in which case the expenses are deductible only to the extent that they are a direct result of the employment; or

(II) the spouse is a qualifying individual described in subsection (1)(c)(i)(C);

(C) an individual legally separated from the individual's spouse under a decree of divorce or of separate maintenance may not be considered as married;

(D) the deduction for employment-related expenses must be divided equally between the spouses when filing separately on the same form;

(E) payment made to a child of the taxpayer who is under 19 years of age at the close of the tax year

and payments made to an individual with respect to whom a deduction is allowable under 15-30-112(5) are not deductible as employment-related expenses;

(d) in the case of an individual, political contributions determined in accordance with the provisions of section 218(a) and (b) of the Internal Revenue Code (now repealed) that were in effect for the tax year ended December 31, 1978;

(e) that portion of expenses for organic fertilizer and inorganic fertilizer produced as a byproduct allowed as a deduction under 15-32-303 that was not otherwise deducted in computing taxable income;

(f) contributions to the child abuse and neglect prevention program provided for in 52-7-101, subject to the conditions set forth in 15-30-156;

(g) the entire amount of premium payments made by the taxpayer, except premiums deducted in determining Montana adjusted gross income, or for which a credit was claimed under 15-30-128, for:

(i) insurance for medical care, as defined in 26 U.S.C. 213(d), for coverage of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer; and

(ii) long-term care insurance policies or certificates that provide coverage primarily for any qualified long-term care services, as defined in 26 U.S.C. 7702B(c), for:

(A) the benefit of the taxpayer for tax years beginning after December 31, 1994; or

(B) the benefit of the taxpayer, the taxpayer's dependents, and the parents and grandparents of the taxpayer for tax years beginning after December 31, 1996;

(h) light vehicle registration fees, as provided for in 61-3-560 through 61-3-562, paid during the tax year; and

(i) per capita livestock fees imposed pursuant to 15-24-921, 15-24-922, 81-6-104, 81-6-204, 81-6-209, 81-7-118, or 81-7-201.

(2) (a) Subject to the conditions of subsection (1)(c), a taxpayer who operates a family day-care home or a group day-care home, as these terms are defined in 52-2-703, and who cares for the taxpayer's own child and at least one unrelated child in the ordinary course of business may deduct employment-related expenses considered to have been paid for the care of the child.

(b) The amount of employment-related expenses considered to have been paid by the taxpayer is equal to the amount that the taxpayer charges for the care of a child of the same age for the same number of hours of care. The employment-related expenses apply regardless of whether any expenses actually have been paid.

Employment-related expenses may not exceed the amounts specified in subsection (1)(c)(iv)(B).

(c) Only a day-care operator who is licensed and registered as required in 52-2-721 is allowed the deduction under this subsection (2)."

Section 46. Section 15-30-122, MCA, is amended to read:

"15-30-122. Standard deduction. (1) A standard deduction equal to 20% of adjusted gross income is allowed if elected by the taxpayer on a return. The standard deduction is in lieu of all deductions allowed under 15-30-121. The minimum standard deduction is ~~$665~~ $1,580, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$1,500~~ $3,560, as adjusted under the provisions of subsection (2). However, in the case of a single joint return of husband and wife or in the case of a single individual who qualifies to file as a head of household on the federal income tax return, the minimum standard deduction is ~~$1,330~~ twice the amount of the minimum standard deduction for a single return, as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a maximum standard deduction of ~~$3,000~~ twice the amount of the maximum standard deduction for a single return, as adjusted under the provisions of subsection (2). The standard deduction may not be allowed to either the husband or the wife if the tax of one of the spouses is determined without regard to the standard deduction. For purposes of this section, the determination of whether an individual is married must be made as of the last day of the tax year unless one of the spouses dies during the tax year, in which case the determination must be made as of the date of death.

(2) By November 1 of each year, the department shall multiply both the minimum and the maximum standard deduction for single returns by the inflation factor for that tax year and round the product to the nearest $10. ~~The minimum and maximum standard deduction for joint returns and qualified head of household returns must be twice the amount of the minimum and maximum standard deduction for single returns.~~ The resulting adjusted deductions are effective for that tax year and must be used in calculating the tax imposed in 15-30-103."

Section 47. Section 15-30-124, MCA, is amended to read:

"15-30-124. Credit allowed resident taxpayers for income taxes imposed by foreign states or countries. (1) Subject to the conditions provided in subsections (2) through (5), a resident of this state is allowed

a credit against the taxes imposed by this chapter for:

(a) income taxes imposed by and paid to another state or country on income taxable under this chapter; ~~and~~

(b) the resident's pro rata share of any income tax imposed by and paid to another state or country by an S. corporation of which the resident is a shareholder; and

(c) the resident's distributive share, whether separately or nonseparately stated, of any income tax imposed by and paid to another state or country by a partnership of which the resident is a partner.

(2) The credit is allowed only for taxes paid to another state or country on income derived from sources within the other state or country that is taxable under the laws of the other state or country regardless of the residence or domicile of the taxpayer.

(3) The credit is not allowed if the other state or country allows residents of this state a credit against the taxes imposed by the other state or country for taxes paid or payable under this chapter.

(4) The allowable credit must be computed by a formula prescribed by the department.

(5) For the purposes of the credit under ~~subsection~~ subsections (1)(b) and (1)(c):

(a) "income tax" has the same meaning as provided in Article II of 15-1-601;

(b) the S. corporation must have made and have in effect on the last day of its tax year a valid election under subchapter S. of Chapter 1 of the Internal Revenue Code; and

(c) the credit applies only to taxes paid by the S. corporation or partnership on income taxable under this chapter."

Section 48. Section 15-30-142, MCA, is amended to read:

"15-30-142. Returns and payment of tax -- penalty and interest -- refunds -- credits. (1) For both resident and nonresident taxpayers, each single individual and each married individual not filing a joint return with a spouse and having a gross income for the tax year of more than ~~$1,500~~ $3,560, as adjusted under the provisions of subsection (7), and married individuals not filing separate returns and having a combined gross income for the tax year of more than ~~$3,000~~ $7,120, as adjusted under the provisions of subsection (7), are liable for a return to be filed on forms and according to rules that the department may prescribe. The gross income amounts referred to in the preceding sentence must be increased by ~~$800~~ $1,900, as adjusted under the provisions of 15-30-112(6), for each additional personal exemption allowance that the taxpayer is entitled

to claim for the taxpayer and the taxpayer's spouse under 15-30-112(3) and (4).

(2) In accordance with instructions set forth by the department, each taxpayer who is married and living with husband or wife and is required to file a return may, at the taxpayer's option, file a joint return with husband or wife even though one of the spouses has neither gross income nor deductions. If a joint return is made, the tax must be computed on the aggregate taxable income and the liability with respect to the tax is joint and several. If a joint return has been filed for a tax year, the spouses may not file separate returns after the time for filing the return of either has expired unless the department consents.

(3) If a taxpayer is unable to make the taxpayer's own return, the return must be made by an authorized agent or by a guardian or other person charged with the care of the person or property of the taxpayer.

(4) All taxpayers, including but not limited to those subject to the provisions of 15-30-202 and 15-30-241, shall compute the amount of income tax payable and shall, at the time of filing the return required by this chapter, pay to the department any balance of income tax remaining unpaid after crediting the amount withheld, as provided by 15-30-202, and any payment made by reason of an estimated tax return provided for in 15-30-241. However, the tax computed must be greater by $1 than the amount withheld and paid by estimated return as provided in this chapter. If the amount of tax withheld and the payment of estimated tax exceed by more than $1 the amount of income tax as computed, the taxpayer is entitled to a refund of the excess.

(5) As soon as practicable after the return is filed, the department shall examine and verify the tax.

(6) If the amount of tax as verified is greater than the amount paid, the excess must be paid by the taxpayer to the department within 60 days after notice of the amount of the tax as computed, with interest added as provided in 15-1-216. In that case, there may not be a penalty because of the understatement if the deficiency is paid within 60 days after the first notice of the amount is mailed to the taxpayer.

(7) By November 1 of each year, the department shall multiply the minimum amount of gross income necessitating the filing of a return by the inflation factor for the tax year. These adjusted amounts are effective for that tax year, and persons who have gross incomes less than these adjusted amounts are not required to file a return.

(8) Individual income tax forms distributed by the department for each tax year must contain instructions and tables based on the adjusted base year structure for that tax year."

Section 49. Section 16-11-111, MCA, is amended to read:

"**16-11-111. Cigarette sales tax -- exemption for sale to tribal member.** (1) (a) A tax on the purchase of cigarettes for consumption, use, or any purpose other than resale in the regular course of business is imposed and must be precollected by the wholesaler and paid to the state of Montana. The tax is ~~18~~ 70 cents on each package containing 20 cigarettes. ~~and, when~~ Whenever packages contain other than 20 cigarettes, there is a tax on each cigarette equal to 1/20th the tax on a package containing 20 cigarettes.

(b) The tax computed under subsection (1)(a) applies to illegally packaged cigarettes under 16-11-307.

(2) The tax imposed in subsection (1) does not apply to quota cigarettes.

(3) Subject to the refund or credit provided in subsection (4), the tax must be precollected on all cigarettes entering a Montana Indian reservation.

(4) Pursuant to the procedure provided in subsection (5), a wholesaler making a sale of cigarettes to a retailer within the boundaries of a Montana Indian reservation may apply to the department for a refund or credit for taxes precollected on cigarettes sold by the retailer to a member of the federally recognized Indian tribe or tribes on whose reservation the sale is made. A wholesaler who does not file a claim within 1 year of the shipment date forfeits the refund or credit.

(5) The distribution of tax-free cigarettes to a tribal member must be implemented through a system of preapproved wholesaler shipments. A licensed Montana wholesaler shall contact the department for approval prior to the shipment of the untaxed cigarettes. The department may authorize sales based on whether the quota, as established in a cooperative agreement between the department and an Indian tribe or as set out in this chapter, has been met. If authorized as a tax-exempt sale, the wholesaler, upon providing proof of order and delivery to a retailer within the boundaries of a Montana Indian reservation selling cigarettes to members of a federally recognized tribe or tribes of that reservation, must be given a ~~credit or~~ refund or credit. Once the quota has been filled, the department shall immediately notify all affected wholesalers that further sales on that reservation must be taxed and that a claim for a refund or credit will not be honored for the remainder of the quota period. Quota allocations are not transferable between quota periods or between reservations.

(6) The total amount of refunds or credits allowed by the department to all wholesalers claiming the refund or credit under subsection (4) for any month may not exceed an amount that is equal to the tax due on the quota allocation. The department shall determine the amount of refunds or credits for each Indian reservation at the beginning of each fiscal year, using the most recent census data available from the bureau of Indian affairs or as provided in a cooperative agreement with the tribe or tribes of the Indian reservation."

Section 50. Section 16-11-114, MCA, is amended to read:

"**16-11-114. Insignia discount.** Each licensed wholesaler is entitled to purchase an insignia at full face value less the following percentage of the face value upon payment for the insignia as defrayment of the costs of affixing insignia and precollecting the tax on behalf of the state of Montana:

(1) ~~6%~~ 1.66% for the first 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month;

(2) ~~4%~~ 1.11% for the next 2,580 cartons or portion ~~thereof~~ of 2,580 cartons purchased in any calendar month; and

(3) ~~3%~~ 0.83% for purchases in excess of 5,160 cartons in any calendar month."

Section 51. Section 16-11-119, MCA, is amended to read:

"**16-11-119. Disposition of taxes.** (1) Cigarette taxes collected under the provisions of 16-11-111 must, in accordance with the provisions of 15-1-501, be ~~allocated~~ deposited as follows:

~~(1)~~(a) ~~The amount of 11.11% of the cigarette tax collected on each package of cigarettes must be deposited~~ 8.3% or $2 million, whichever is greater, in the state special revenue fund to the credit of the department of public health and human services for the operation and maintenance of state veterans' nursing homes~~.~~;

~~(2) The amount of 73.04% must, in accordance with the provisions of 15-1-501, be deposited in the state general fund.~~

~~(3)~~(b) ~~The amount of 15.85% must, in accordance with the provisions of 15-1-501, be deposited~~ 4.3% in the long-range building program account provided for in 17-7-205; and

(c) the remainder to the state general fund.

(2) If money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds $2 million at the end of the fiscal year, the excess must be transferred to the state general fund."

Section 52. Section 16-11-201, MCA, is amended to read:

"**16-11-201. Definitions.** As used in this part, the following definitions apply, unless the context requires

otherwise:

(1) "Moist snuff" means any finely cut, ground, or powdered tobacco, other than dry snuff, that is intended to be placed in the oral cavity.

(2) "Retailer" means any person other than a wholesaler who is engaged in the business of selling tobacco products to the ultimate consumer.

~~(2)~~(3) "Sale" or "sell" means any transfer of tobacco products for a consideration, exchange, barter, gift, offer for sale, or distribution, in any manner or by any means.

~~(3)~~(4) "Tobacco product" means a substance other than cigarettes that is intended for human consumption and that contains tobacco.

~~(4)~~(5) "Wholesale price" means the established price for which a manufacturer sells a tobacco product to a wholesaler or any other person before any discount or other reduction.

~~(5)~~(6) "Wholesaler" means any person who purchases tobacco products directly from the manufacturer or from any other person who purchases from the manufacturer and who acquires the products for sale to retail dealers."

Section 53. Section 16-11-202, MCA, is amended to read:

"16-11-202. Tax on sale of tobacco other than cigarettes -- imposed on retail consumer -- rate of tax. (1) All taxes paid pursuant to the provisions of this section are considered to be direct taxes on the retail consumer, precollected for the purpose of convenience and facility only. When the tax is paid by any other person, the payment is considered as an advance payment and must be added to the price of tobacco products and recovered from the ultimate consumer or user. ~~Any~~ A person selling tobacco products at retail shall state or separately display in the premises where the products are sold a notice of the tax included in the selling price and charged or payable pursuant to this section. The provisions of this section do not affect the method of collection of the tax as provided in this part.

(2) There must be collected and paid to the state of Montana a tax of ~~12 1/2%~~ 25% of the wholesale price, to the wholesaler, of all tobacco products, other than moist snuff ~~to the wholesaler~~. The tax on moist snuff is 35 cents an ounce based upon the net weight of the package listed by the manufacturer. For packages of moist snuff that are less than or greater than 1 ounce, the tax must be proportional to the size of the package. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not

subject to this tax."

Section 54. Section 16-11-206, MCA, is amended to read:

"16-11-206. Wholesaler's discount -- disposition of taxes. The taxes specified in this part that are paid by the wholesaler must be paid to the department in full less a ~~5%~~ 2.5% defrayment for the wholesaler's collection and administrative expense and must, in accordance with the provisions of 15-1-501, be deposited by the department in the state general fund. Refunds of the tax paid must be made as provided in 15-1-503 in cases in which the tobacco products purchased become unsalable."

Section 55. Transition. (1) On or before June 30, 2003, each cigarette wholesale dealer, retail dealer, and vending machine operator shall file a report with the department of revenue in the form prescribed by the department showing the number of stamped cigarettes and cigarette tax insignia on hand at 12:01 a.m. on April 30, 2003.

(2) Accompanying the report filed pursuant to subsection (1), each cigarette wholesale dealer, retail dealer, and vending machine operator shall pay the difference in tax between the former tax rate and the new tax rate on that portion of inventory of cigarettes and cigarette tax insignia subject to [this act] held by the dealer or operator at 12:01 a.m. on April 30, 2003, that exceeds the number of stamped cigarettes and cigarette tax insignia held in inventory by the cigarette wholesale dealer, retail dealer, or vending machine operator at the close of its most recently concluded income tax reporting year.

Section 56. Notification to tribal governments. The secretary of state shall send a copy of [this act] to each tribal government located on the seven Montana reservations and to the Little Shell band of Chippewa.

Section 57. Codification instruction. (1) [Section 1] is not intended to be codified.

(2) [Sections 2 through 39] are intended to be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 2 through 39].

(3) [Section 40] is intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [section 40].

Section 58. Coordination instruction. If Senate Bill No. 470 is passed and approved, then [sections 40 through 46 and 48 of this act] are void.

Section 59. Saving clause. [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

Section 60. Severability. If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 61. Effective dates. (1) Except as provided in subsection (2), [this act] is effective on passage and approval.

(2) [Sections 40 through 46 and 48] are effective January 1, 2005.

Section 62. Applicability. (1) [This act] applies to the sale of the following goods and services:

(a) cigarette and tobacco products sold on or after May 1, 2003;

(b) accommodation and campground charges under [section 3(1)(b) and (3)(a)(ii)] made on or after June 1, 2003; and

(c) base rental charges for rental vehicles under [section 3(1)(c) and (3)(a)(iii)] made on or after July 1, 2003.

(2) [Sections 40 and 42 through 45] apply to tax years beginning after December 31, 2004.

(3) [Section 47] applies retroactively, within the meaning of 1-2-109, to years beginning after December 31, 2002.

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